PROVINCE OF SASKATCHEWAN

REPORT OF THE PROVINCIAL AUDITOR

TO THE LEGISLATIVE ASSEMBLY

FOR THE

YEAR ENDED MARCH 31

1986

Provincial Auditor Saskatchewan

April 30, 1987

To the Members of the Legislative Assembly

I have the honour to submit to the Legislative Assembly, this report, upon the examination of the accounts of the Government of the Province of Saskatchewan for the fiscal year ending March 31, 1986, to be laid before the Assembly in accordance with the provisions of Section 14 of The Provincial Auditor Act.

Respectfully Submitted,

W. G. Lutz, F.C.A.,
Provincial Auditor

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1986

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REPORT OF THE PROVINCIAL AUDITOR TO THE LEGISLATIVE ASSEMBLY FOR THE FISCAL YEAR ENDED MARCH 31, 1986

INTRODUCTION

Our system of government is based on the principle of rule by law. The executive government (Executive Council and its appointed officials) is authorized to govern in accordance with laws passed by the Legislative Assembly. The executive government is accountable to the Legislative Assembly for its financial administration of the Province including strict compliance with the law.

Sound financial administration helps to ensure that the financial resources of the Province are properly managed within the general objectives of legality, probity and prudence. The Provincial Auditor's role, therefore, is to audit the executive government's financial administration of the Province having regard to the above mentioned general objectives and to report to the Legislative Assembly where there are deficiencies in the manner in which the government has administered the financial resources of the Province.

The Provincial Auditor Act governs the appointment of the Provincial Auditor and his staff, the powers of the Provincial Auditor and his responsibilities to audit and report. A copy of The Provincial Auditor Act is contained in Appendix 1 to this report.

All entities, such as Boards, Commissions, Crown Corporations and Departments of the Government of Saskatchewan, are equally accountable to the Legislative Assembly. In keeping with this philosophy, the Legislative Assembly has established, through The Provincial Auditor Act, uniform audit and reporting requirements for every entity of the Government of Saskatchewan, regardless of the legal form of the organization and regardless of whether the Provincial Auditor is the sole auditor of that entity or whether another auditor conducts the audit under the supervision of the Provincial Auditor.

This uniformity of audit examination and reporting requirements was designed to ensure that the members of the Legislative Assembly will receive comparable information on matters relating to the quality of administration of public money for each entity of the Government of Saskatchewan so as to permit each entity to be held equally accountable.

1

CURRENT ISSUE OF IMPORTANCE

PARLIAMENTARY ACCOUNTABILITY

CROWN CORPORATION ACCOUNTABILITY

1.00 In January, 1987, shortly after a public announcement by the Minister of Finance to a similar effect, I was advised by the Minister of a change in government policy which would allow the Boards of Directors of Crown Corporations to accept proposals from accounting firms which might be interested in doing audit work. The Minister indicated this change in policy would allow all of the Crowns to determine the most cost-effective means of having auditing work done. The Minister also indicated his officials would meet with me at my convenience to discuss the appropriate legislative measures to effect the policy and protect the public's interest.

1.01 I responded to the Minister in January, 1987, asking that his officials contact me when they wished to discuss this matter.

1.02 On February 19, 1987, I wrote to the Minister indicating that I had not heard from his officials regarding the change in policy and brought to his attention some serious concerns that I had which were summarized as follows:

> *"In summary, as the officer of the Legislative Assembly appointed specifically to assist the Members of the Legislative Assembly in its responsibility to hold the executive government accountable, I believe that any legislative enactments to permit the appointment of private sector auditors should not in any way detract from my ability to satisfy myself as to the true state of affairs of all public money, including that managed by Crown corporations, in order to report with confidence to the Members of the Legislative Assembly."*

1.03 On April 3, 1987, I met with the Acting Deputy Minister of Finance. He confirmed that all Crown corporation boards were engaged in the selection of private sector audit firms

and the process of selecting auditors was nearing a conclusion. He also indicated the government was considering amendments to The Provincial Auditor Act that would change my supervisory role with respect to the audits of Crown corporations audited by private sector auditors.

1.04 On April 13, 1987, I wrote to the Acting Deputy Minister of Finance and again advised that any legislative enactments should not in any way make Crown corporations less accountable to the Members of the Legislative Assembly. I advised that any amendments to my supervisory role that would reduce my powers and duties would have such an effect.

1.05 I also informed the Acting Deputy Minister of Finance that any attempt by the executive government to limit, through budgetary control, the extent and nature of the inquiries that I deem necessary to carry out my duties under The Provincial Auditor Act, would represent a serious attack on the independence of my office as it would limit my ability to report with confidence to the Legislative Assembly.

1.06 The last observation I made in my letter of April 13, 1987, was that, if public servants who are to be audited, are in the process of determining legislation which will govern how they are to be audited and I am not involved as I have been in the past, who is looking after the interests of the Legislative Assembly, which is the body that requires the audit? As I have not been consulted, I intend to examine any proposed legislation to effect the government policy to privatize the audits of Crown corporations. I will make a special report to the Members of the Legislative Assembly if, in my opinion, the proposed legislation would make the executive government less accountable to the Legislative Assembly for the administration of Crown corporations.

CONTINUING CONCERNS REGARDING ACCOUNTABILITY

1.07 Accountability in the public sector has been described as a fundamental prerequisite for preventing the abuse of delegated power and for ensuring, instead, that power is directed toward the achievement of broadly accepted goals with the greatest possible degree of efficiency, effectiveness, probity and prudence.

1.08 As the Officer of the Legislative Assembly whose role it is to assist the Members of the Legislative Assembly in holding

the executive government accountable for the administration of public money, I am deeply concerned over the lack of timely appropriate financial information provided to the Members of the Legislative Assembly. Timely and appropriate financial information enables Members to carry out their parliamentary duty which is to authorize and scrutinize the executive government's administration of public money. This duty is fundamental to our parliamentary democratic system of government.

1.09 I think it is important that the Members of the Legislative Assembly seek answers to the following questions and judge for themselves whether they have timely appropriate information to hold the executive government accountable:

i) Is the information received on a sufficiently timely basis to be relevant?

ii) Does the Legislative Assembly's auditor have the mandate to report, to the Members of the Legislative Assembly, information that is critical to ensuring the accountability of the executive government?

iii) Is appropriate legislation in place to ensure that the Legislative Assembly's auditor is free from any interference from the executive government that would limit his ability to report with confidence in a timely manner?

iv) Are duly audited financial statements available to the Members of the Legislative Assembly for every organization controlled by the executive government?

v) Is there a duly audited financial statement aggregating all of the financial statements of the individual organizations of government so that there is an overall accounting of the executive government's financial administration?

vi) Is appropriate uniform financial information provided to the Members of the Legislative Assembly for the purpose of holding the executive government accountable?

1.10 The following are my observations regarding each of these questions:

TIMELINESS

1.11 *"i) Is the information received on a sufficiently timely basis to be relevant?"*

1.12 There is a timeliness problem with two key documents in the accountability process. These two documents are the Public Accounts and the Provincial Auditor's Annual Report.

a) **Public Accounts**

1.13 The Legislative Assembly is responsible for the examination and approval of the Estimates. When called upon to approve the Estimates for a fiscal year the Legislative Assembly does not have the audited financial statements for the Consolidated Fund and Saskatchewan Heritage Fund for the immediately previous fiscal year or, as a substitute, audited interim financial statements for a portion of the previous fiscal year.

1.14 The financial statements for the Consolidated Fund and Saskatchewan Heritage Fund for the year ended March 31, 1986 were not yet completed at March 31, 1987, a full year after the year end. When the Members of the Legislative Assembly receive the information for 1985/86 it will be so dated that its value is diminished. It is difficult to understand why the necessary infrastructure is not in place to have these audited financial statements for the Consolidated Fund and the Saskatchewan Heritage Fund available to the Members of the Legislative Assembly within six months after the end of a fiscal year.

b) **Provincial Auditor's Report**

1.15 My annual report for a fiscal year has, for the past five years, been tabled at the spring session of the Legislative Assembly in the next fiscal year. The examination of public money has usually been completed by late January or early February or about 9 to 10 months after the year end. My report is prepared after the work is completed. When the Members of the Legislative Assembly receive my report

the information contained therein is also so dated that its value is diminished.

1.16 The resources provided for my office are not sufficient to complete the examination of the administration of public money and to report at an earlier date. See paragraph 1.21 for further discussion.

VALUE FOR MONEY AUDITING

1.17 *"ii) Does the Legislative Assembly's auditor have the mandate to report, to the Members of the Legislative Assembly, information that is critical to ensuring the accountability of the executive government?"*

1.18 In order to hold the executive government accountable, it is critical that the Members of the Legislative Assembly receive information from their legislative auditor as to whether there has been due regard to economy, efficiency and effectiveness in the executive government's administration of public money.

1.19 The Provincial Auditor Act does not explicitly provide that the Provincial Auditor should examine, ascertain and report to the Legislative Assembly whether there has been due regard to economy, efficiency and effectiveness in the executive government's administration of public money.

1.20 The Members of the Legislative Assembly, therefore, do not have the information to hold the executive government accountable for economy, efficiency and effectiveness in the administration of public money.

INDEPENDENCE

1.21 *"iii) Is appropriate legislation in place to ensure that the legislative assembly's auditor is free from any interference from the executive government that could limit his ability to report with confidence in a timely manner?"*

1.22 The Provincial Auditor is appointed an officer of the Legislative Assembly after consultation with the Chairman of the Standing Committee on Public

Accounts. He is independent of the executive government in all but one critical aspect. The Provincial Auditor must obtain his funding from the executive government. This allows for interference in the effective discharge of the Provincial Auditor's duties. In 1986/87 the executive government reduced the funding for the Provincial Auditor. The effect of this reduction was a delay in my 1986 annual report as the reduction caused me to have to carry out the audit of public money for the 12 months ended March 31, 1986 over a 14 month period. Timely reports are required for the Legislative Assembly to hold the executive government accountable. Reduced funding for my office results in reducing the accountability of the executive government.

1.23 In November, 1986, I prepared a special report pursuant to the provisions of The Provincial Auditor Act calling attention to the reduction in resources made available to my office and the consequent impact on my ability to provide my annual report to the Legislative Assembly on a timely basis. I submitted this report to the Audit Committee appointed by the Lieutenant Governor in Council, as required by Section 23 of the Act, in December, 1986. This report was not submitted to the Speaker prior to adjournment of the legislative session on December 23, 1986, and is included as additional information in Appendix II of this annual report.

1.24 I recommend that the funding for my office be determined by the Standing Committee on Public Accounts so that those I serve have input into my funding level and can determine the appropriate level of accountability of the executive government rather than the executive government determining its own level of accountability.

FINANCIAL STATEMENTS NOT TABLED

1.25 *"iv) Are duly audited financial statements available to the Members of the Legislative Assembly for every organization controlled by the executive government?"*

1.26 The Legislative Assembly has not enacted any legislation to ensure that the duly audited financial statements for Crown agencies established pursuant to The Business Corporations Act are tabled in the Legislative Assembly. The result of this deficiency is that the Legislative Assembly does not have all essential information to hold the executive government accountable for that public money administered by these corporations.

1.27 These corporations administer a significant amount of public money. Some of the more significant of these corporations are:

1) Prince Albert Pulp Company Ltd.

2) CIC Industrial Interests Inc.

3) Prairie Malt Limited

4) Westank Industries Ltd.

5) SaskPen Properties Ltd.

OVERALL PICTURE NOT PROVIDED

1.28 *"v) Is there a duly audited financial statement aggregating all of the financial transactions of the individual organizations of government so that there is an overall accounting of the executive government's financial administration?"*

1.29 The Members of the Legislative Assembly and the voters require an overall picture of the provincial government's finances, what is owned, what is owed, where the revenues come from and how the revenue is spent in order to make informed decisions and choices. Legislation has been enacted that provides for this financial information. Section 65 of The Department of Finance Act, 1983 requires the Minister of Finance to cause the Comptroller to prepare statements showing clearly and fully the revenues, expenditures and financial position of the Government of Saskatchewan.

Current Issue of Importance

1.30 At the present time the Members of the Legislative Assembly do not receive financial statements which show clearly and fully the revenues, expenditures and financial position of the Government of Saskatchewan in accordance with the economic substance of the transactions.

1.31 The Canadian Institute of Chartered Accountants has recently published an information booklet on government deficits which more fully explains this matter. With the permission of the Canadian Institute of Chartered Accountants, I have reproduced this booklet. It is contained in Appendix III of this report.

1.32 Fragmented financial reporting makes it virtually impossible to understand the complete financial picture. The following is an example of the effect of fragmented reporting.

1.33 During the year under review, the Saskatchewan Property Management Corporation was established by authority of Order-in-Council 357/86, dated March 25, 1986. The Consolidated Fund (Department of Supply and Services) on March 31, 1986 sold to the Corporation work in progress on certain capital projects for $23,881,000 and, in addition, the Consolidated Fund was reimbursed an amount of $46,017,000 by the Corporation for grants paid to certain hospitals and universities. These transactions are recorded as reductions in expenditures in the March 31, 1986 draft financial statements of the Consolidated Fund and are disclosed in a Note to these draft financial statements. Short-term loans were provided to the Corporation by the Consolidated Fund in its 1986/87 fiscal year to finance these transactions and these loans together with the aforementioned purchase and reimbursement transactions will be recorded as 1987 fiscal year transactions by the Corporation. The reported effect of these related party transactions was to reduce the net debt of the Consolidated Fund as at March 31, 1986 by $69,898,000. If summary financial statements had been prepared it would be apparent that the actual effect was no change to the Province's net debt since the

overall net debt cannot be affected when one is dealing with one's self.

1.34 The matter of fragmented reporting was discussed by the Standing Committee on Public Accounts and the matter was deferred until a report was received from the Department of Finance on this matter.

1.35 The former Deputy Minister of Finance in his May 15, 1986 appearance before the Standing Committee on Public Accounts, advised that a consultant had been hired June 1, 1986 for a one year term to research the accounting issues related to summary financial statements for the Province. I have requested information from the Acting Deputy Minister of Finance about the current status of this project and any resulting recommendations. The Acting Deputy Minister has informed me that the consultant has concluded the major portion of his research and is currently considering the results of that research. Accordingly, I continue to recommend that the Government of Saskatchewan include in the Public Accounts a summary general purpose financial statement showing clearly and fully the revenues, expenditures and financial position of all special purpose funds and crown agencies under the control of the Government of Saskatchewan in accordance with the economic substance of the transactions on a timely basis so that the Members of the Legislative Assembly have this essentia information to hold the executive government accountable.

LACK OF EXPENDITURE DETAIL

1.36 *"vi) Is appropriate uniform financial information provided to the Members of the Legislative Assembly for the purpose of holding the executive government accountable?"*

1.37 In the interest of accountability the Legislative Assembly requires the executive government to disclose by payee every payment of (a) salaries, services and gratuities of $20,000 or more; (b) travel, sustenance and vehicle expenses of $2,000 or more; (c) other expenses of $10,000 or more and all grants, only

where activities of the executive government are carried out by a government department.

1.38 In this regard, the formation of the Saskatchewan Property Management Corporation has caused me further concern relative to accountability.

1.39 In the past certain activities of the executive government were carried out by the Department of Supply and Services. Through an action of the executive government these same activities are now carried out by Saskatchewan Property Management Corporation.

1.40 In the past Crown corporations have not disclosed this payee information which the Members of the Legislative Assembly consider essential.

1.41 If this payee information is not disclosed in the annual report for the Saskatchewan Property Management Corporation the Members of the Legislative Assembly will lose essential information which they had available to them when those activities of the executive government were carried out by the Department of Supply and Services.

1.42 I am not aware of any reason why this information cannot be disclosed.

1.43 I also am of the opinion that disclosure of this information for all Crown agencies would be useful information for the Members of the Legislative Assembly.

1.44 I also believe that having to disclose this information would serve as a discipline for Crown corporation managers.

2

AUDIT SCOPE

2.00 An audit examination of every organization of the Government is required to be conducted each year.

2.01 This annual examination is conducted in accordance with generally accepted auditing standards and accordingly consists of such tests and other procedures as I consider necessary to:

2.02 1) form an opinion on the adequacy of the control systems implemented by management to ensure that essential records are maintained, public property is controlled and safeguarded, there is an effective check on the assessment and collection of revenue and to ensure that transactions are appropriately authorized;

2.03 2) form an opinion on the financial statements prepared by management for the various entities of the Government of Saskatchewan.

2.04 Where I am of the opinion that the management control systems allow more than a relatively low risk of error or fraud in amounts that would be material to the organization being audited, where practicable, I examine or cause to be examined an additional selection of transactions to determine whether for those transactions selected:

a) there was any wilful or negligent non-collection of public money;

b) public money has been duly accounted for and paid into the appropriate fund;

c) appropriations were exceeded or applied to unauthorized purposes;

d) expenditures had adequate authority and were properly vouchered and certified;

e) there has been a deficiency or loss to the Crown.

2.05 This examination of the transactions selected is also conducted in accordance with generally accepted auditing standards and accordingly includes such tests and other procedures as I consider necessary in the circumstances.

2.06 As is customary in auditing, an audit examination under The Provincial Auditor Act consists of applying selected tests and other procedures to selected transactions and accordingly will not necessarily disclose all conditions of errors or fraud which could be reported pursuant to Section 12 of The Provincial Auditor Act, as not all transactions of the Government have been examined. Accordingly, the reporting or non-reporting of an observation is not intended to provide any assurance on transactions which have not been examined.

2.07 In addition, because of the inherent limitations in any system of management controls, errors or fraud may occur and not be detected. Also, projection of any evaluation of the system of management controls to future periods is subject to the risk that management procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

2.08 The observations on departments and crown agencies contained in my report are the significant observations made in connection with the audits performed in the previously described manner.

3

CONTROLS OVER ELECTRONIC DATA PROCESSING (Computer Systems)

3.00 As part of the examination of Departments and Crown agencies my representatives examine the rules and procedures to determine whether (1) the security systems are adequate to prevent and detect unauthorized access to information or unauthorized manipulation of data maintained on computer files, (2) the rules and procedures for development of computer systems are adequate to ensure essential records are maintained and (3) back-up files and programs and alternate processing facilities are available to ensure that computer processing capability can continue in the event of an equipment failure.

3.01 Officials of each Crown agency and Department are responsible to establish policies and procedures to ensure that transactions are properly recorded and to ensure appropriate security over their records.

3.02 For small unsophisticated accounting systems these policies and procedures are relatively easy to implement by such means as physically limiting who can have access to the documents, books and records of the organization and storing the records in locked, fire resistant areas.

3.03 Where computers are involved in the processing of financial records it becomes more difficult to control access to an organization's records and to physically protect the records.

3.04 Further difficulties arise where the records of an organization are processed and stored by a computer service bureau. This results in the need for more sophisticated control techniques in order to achieve the appropriate degree of control.

3.05 Many government Departments and Agencies utilize the services of the Saskatchewan Computer Utility Corporation (SaskComp) to process and store their records.

Controls Over Electronic Data Processing (Computer Systems)

3.06 With regard to computer security systems, my representatives observed that in certain Departments and Crown agencies appropriate security procedures had not been implemented to prevent or detect unauthorized access to critical information or unauthorized manipulation of data. Examples of inadequate security systems appear in paragraphs 14.26, 14.52, 16.21 and 20.10 of this report.

3.07 Further, during the course of my examination of government Departments and Agencies, it was noted that there was no policy requiring SaskComp to provide written assurance, attested to by an auditor, that security over the operating system and processing environment at SaskComp was adequate to ensure that SaskComp has implemented and satisfactorily carried out the control procedures required by each government Department or Agency.

3.08 Accordingly, government Departments and Agencies have no evidence that their records are protected in accordance with the policies that they have established with the result that the security of their data files and programs may be compromised.

3.09 With regard to the controls over the development of new computer systems my representatives observed a number of Departments and Agencies where these controls were also deficient. In some cases these deficiencies resulted in the failure of the Department or Agency to maintain essential records. Examples of inadequate systems development controls are contained in paragraphs 4.01, 7.51, 18.09 and 32.00 of this report.

3.10 With regard to alternate computer processing capability and back-up data files and computer programs my representatives also observed that in a number of Departments and Agencies there was not a formal plan documenting the manner in which computer processing of financial transactions would continue in the event of an equipment failure.

3.11 These matters were reported in my 1983 annual report. While officials of Departments and Agencies have taken actions to strengthen controls over computer systems since my 1983 annual report, I am of the opinion that controls over computer systems require further strengthening to more adequately safeguard critical information and to ensure essential records are maintained.

AGRICULTURAL CREDIT CORPORATION OF SASKATCHEWAN

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4

AGRICULTURAL CREDIT CORPORATION OF SASKATCHEWAN

LIVESTOCK CASH ADVANCE PROGRAM AND PRODUCTION LOAN PROGRAM

4.01 Adequate controls for the development of systems require that certain prescribed procedures be observed and approvals obtained prior to adoption of a new system. These procedures should contain all control elements necessary to ensure that new systems are consistent with the Corporation's accounting policies, its legislative requirements, and its broad objectives of internal control.

4.02 During the year, the Corporation was given responsibility for the administration of two new programs which provide assistance to farmers. These programs are the Livestock Cash Advance Program and the Production Loan Program.

4.03 Sections 32.1 and 32.4 of The Agricultural Credit Corporation of Saskatchewan Amendment Regulations, 1985 set out eligibility criteria for the Livestock Cash Advance Program and Production Loan Program respectively. Subsections 32.2(2) and 32.6(3) of these regulations also allow the Corporation to establish any other terms and conditions that it considers necessary in the administration of these programs.

4.04 The system development controls were not adequate for these two programs to safeguard the assets of the Corporation and to ensure that recipients of loans had complied with the eligibility criteria set out in the regulations prior to loan disbursements.

4.05 The following specific deficiencies were observed with regard to these two programs.

SECURITY FOR LOANS

4.06 It was noted that, for the Production Loan and Livestock Cash Advance programs no security or collateral other than promissory notes signed by the applicants and, in the case

of corporations, personal guarantees from its corporate members, was obtained for these loans and advances. Also, it was noted that no net worth or cash flow statements were requested from borrowers and no credit checks were performed.

4.07 The lack of adequate security arrangements and credit checks increases the risk that loans and advances made by the Corporation may not be adequately protected against possible loss.

ELIGIBILITY FOR LOANS

4.08 In addition, regarding eligibility, officials of the Corporation have established a limited number of procedures to verify the eligibility of the recipients as required by regulation before the loans are disbursed. Some examples of these procedures are the verification of farm corporate status, and the review of applications to ensure they are appropriately completed and signed.

4.09 During the course of the examination, it was noted that the Corporation relied upon the applicants' affidavits as to their declaration of personal circumstances to ensure compliance with some of the loan eligibility criteria set out in the aforementioned regulations. For the Livestock Cash Advance Program, this affidavit included declarations that the eligible livestock are owned by the farmer, that the farmer is a Saskatchewan resident and Canadian citizen and that he is actively engaged in farming. For the Production Loan Program, this affidavit included declarations that the farmer intends to farm the cultivated acres to which the loan applies, that the farmer is a Saskatchewan resident and a Canadian citizen and that the farmer is actively engaged in farming. The eligibility of applicants receiving loans under these programs was not further verified by the officials of the Corporation with respect to these criteria before the loans were disbursed.

4.10 The lack of adequate checking of the eligibility of the loan applicants increases the risk that loans may be made to ineligible applicants.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

4.11 During the year, the Corporation disbursed $967 million and $166 million in respect of Production Loans and Livestock Cash Advances respectively.

4.12 Officials of the Corporation did not have appropriate policy and procedures to determine an allowance for doubtful accounts that was in accordance with generally accepted accounting principles since in its original determination of the allowance for losses the Corporation did not fully consider current economic conditions in the agricultural sector and the lack of adequate security arrangements.

4.13 Generally accepted accounting principles require that an allowance for losses be estimated by reference to the accounts outstanding at the end of the financial period after taking into consideration all circumstances known at the date of review.

4.14 The failure to develop an adequate methodology which would permit the preparation of financial statements with an appropriate allowance for doubtful accounts resulted in the final issuance of the Corporation's financial statements being delayed until April, 1987.

POST-ELIGIBILITY HERD INSPECTIONS

4.15 To assess the continued eligibility of the recipients of the Livestock Cash Advances, management has established a routine of post-eligibility herd inspections. During the year Corporation officials conducted herd inspections on approximately 9% of advance recipients. Corporation officials determined that for those herds inspected, 22% of the advance recipients had less than 95% of the required number of livestock on hand to continue their eligibility for advances.

4.16 Because appropriate procedures were not developed, the above sample results were not properly tabulated so as to permit a statistical estimation of the total number of ineligible advance recipients.

INADEQUATE SEGREGATION OF DUTIES

4.17 One element of internal control is a system of organizational controls which provides for segregation of duties among employees in connection with the authorization of transactions, record keeping and custody of assets thereby ensuring no one person is in complete control of a transaction.

4.18 During the period under examination, it was noted that these controls were not present with regard to the processing

of adjustments for the Livestock Cash Advance Program and the Production Loan Program. It was observed that one person was responsible for:

i) cancelling returned uncashed cheques,

ii) recording the cancellation of returned uncashed cheques by preparing and approving adjustment input forms,

iii) preparing and approving journal entries,

iv) reconciling subledgers to the control accounts, and

v) approving bank reconciliations.

4.19 This absence of an adequate segregation of duties increases the risk of returned cheques being misappropriated with this fact concealed through adjustment of the accounting records.

FAILURE TO RECOVER LIVESTOCK CASH ADVANCES AND INTEREST

4.20 The Corporation established additional terms and conditions with respect to the Livestock Cash Advance Program. These terms and conditions, printed on the application forms, set out further eligibility requirements and terms of repayment.

4.21 Section 32.3 of The Agricultural Credit Corporation of Saskatchewan Amendment Regulations, 1985, states that "all advances made...bear no interest until the date they are due as determined by the terms and conditions of the advance and, after that date, bear interest at the rate of 11 3/4% per annum."

4.22 The terms set out in the promissory note which is part of the loan application form for Livestock Cash Advances states that upon default in the repayment (within 30 days) of loan proceeds where herd numbers have been reduced by sale or disposition, "...the entire principal sum shall immediately become due and payable without notice."

4.23 When an insufficient number of livestock is determined by a herd inspection, the Corporation, in practice, requests repayment and commences calculating interest charges 30 days from the date of the herd inspection on an amount equivalent only to the shortfall of the number of livestock times

the amount advanced per animal. Management has indicated that it is not obliged to exercise all of the Corporation's rights under the terms and conditions of the advance.

4.24 In my opinion, this practice is not consistent with the approved terms and conditions of the advance and results in management failing to collect money belonging to the Crown.

DATA SECURITY

4.25 In a computer environment, it is desirable to have a documented recovery plan for the timely reconstruction of computer files to ensure that continuous operations can be maintained in situations where preventative measures fail and computer files, documentation or equipment are damaged or destroyed.

4.26 This recovery plan would cover the following:

i) detailed steps to be carried out in reconstructing files;

ii) the persons responsible for carrying out the various steps;

iii) applications to be given top priority in reconstruction; and

iv) alternative manual procedures to be followed during the recovery period.

4.27 Formal arrangements should be made for alternative processing facilities to ensure that sufficient time can be made available for both reconstruction and regular processing. Periodic testing should be carried out to ensure that the back-up hardware facility remains compatible and that it can handle the additional volume of data.

4.28 In addition, arrangements should be made to ensure that at least one back-up copy of master files, programs and documentation is maintained in a safe off-site location which can be used in the event that copies at the computer facilities are accidentally damaged or destroyed.

4.29 During the audit examination, it was observed that no evaluation has been made of processing priorities to determine which applications are critical to the Corporation, and the

Corporation has not documented and tested a recovery plan for its computerized operations. As a result, if damage or destruction occurs, the Corporation may find it difficult or impossible to recover in a timely and economic manner.

CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN

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CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN

5.01 Section 12(1) of The Provincial Auditor Act requires me to include in my annual report any reservations of opinion made in an audit report.

5.02 My auditor's report on the consolidated financial statements of the Crown Investments Corporation of Saskatchewan for the year ended December 31, 1985 contains a reservation of opinion and reads, in part, as follows:

> *"Recently, there has been considerable clarification of financial reporting and auditing issues in the public sector by the Canadian Institute of Chartered Accountants. As explained in Note 1a, the financial statements of those corporations designated by Order-in-Council as subject to Part II of The Crown Corporations Act, 1978 are consolidated in these financial statements in accordance with the pooling of interests method. Generally accepted accounting principles require, except in certain specific instances, the preparation of consolidated financial statements when there has been a business combination, that is, any transaction whereby one business unites with or obtains control over the assets of another business which results in the bringing together of separate companies into one economic unit. Generally accepted accounting principles precludes from business combinations any financial arrangements between companies that are under common control. Since the corporations subject to Part II of The Crown Corporations Act, 1978 included in these consolidated financial statements are under the control of the Executive Council and not Crown Investments Corporation of Saskatchewan, the requirements for a business combination under generally accepted accounting principles have not been met. In this respect, the economic unit portrayed by these consolidated financial statements is not, in my opinion, presented in accordance with generally accepted accounting principles. Had consolidated financial statements of Crown Investments Corporation of Saskatchewan been prepared for the appropriate economic unit in accordance with generally*

accepted accounting principles, virtually every account in, and the information provided by way of notes to, the accompanying financial statements would be materially different. Further, in my opinion, if aggregated financial statements are to be presented to the Legislative Assembly for those corporations listed in Note 1a and Crown Investments Corporation of Saskatchewan, generally accepted accounting principles require that such financial statements be presented as combined financial statements rather than consolidated financial statements since the Executive Council and not Crown Investments Corporation of Saskatchewan controls these corporations.

In my opinion, because an appropriate economic unit is not portrayed by these consolidated financial statements as described in the preceding paragraph, these consolidated financial statements do not present fairly the consolidated financial position of the corporation as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles."

5.03 My auditor's report is advising the reader that it is my opinion that the consolidated financial statements which have been prepared are not appropriate.

REASONS FOR THE RESERVATION OF OPINION

5.04 This is a change in position from my previous reports on the consolidated financial statements of the Crown Investments Corporation of Saskatchewan.

5.05 The following discussion summarizes the reasons for my change in position:

5.06 In 1978, when Crown Investments Corporation of Saskatchewan (CIC) presented consolidated financial statements for my consideration there were complex problems involved in determining the form of my auditor's report. Ultimate control of the corporations subject to Part II of The Crown Corporations Act, 1978 (the Act) was exercised by the Executive Council and CIC did not have an ownership position in relation to the corporations subject to Part II of the Act. Also, in 1978 there was no specific guidance as to what constituted generally accepted accounting principles (GAAP) in the public sector. For that

matter, the profession itself was uncertain as to what constituted GAAP for organizations other than private sector enterprises. Auditor's reports of the day for entities other than private sector enterprises often stated "GAAP for hospitals", "GAAP for universities", "GAAP for non-profit and public sector organizations" or GAAP even when the statements were not prepared in accordance with GAAP as set out in the CICA Handbook if the accounting policies were not inappropriate.

5.07 In the absence of specific guidance as to what represented GAAP in the public sector, I decided that although the aggregation of financial information presented by CIC as consolidated financial statements was not exactly as contemplated by GAAP for the private sector, it was not inappropriate to issue an unqualified GAAP opinion on the financial statements if appropriate disclosure was made in the notes to the financial statements of the basis for the consolidation. Because of the complex nature of this issue and the lack of specific guidance from my governing professional organization, I decided that I should consult with an independent group of my peers in Saskatchewan to ensure that my conclusions were not different from what my professional colleagues would conclude in similar circumstances. Accordingly, this matter was presented to an independent panel consisting of the managing partners of a number of national firms of Chartered Accountants. The panel concurred with my decision.

5.08 Since 1978, the accounting profession and more specifically the Canadian Institute of Chartered Accountants (CICA) has provided considerable guidance with respect to the accounting principles and auditing standards that are appropriate for financial reporting for organizations other than private sector enterprises.

5.09 As an example, in 1980 the CICA released a Research Study "Financial Reporting For Non-Profit Organizations". This Research Study concluded, in part, on page 8 for combined and consolidated financial statements:

> *"1. A reporting non-profit organization should provide consolidated financial statements when it controls one or more organizations through a parent-subsidiary relationship.*
>
> *2. When a non-profit organization controls other non-profit organizations other than through a parent-subsidiary*

relationship, the reporting organizations should prepare combined financial statements except when they would be misleading."

5.10 This Research Study provided guidance to auditors of these entities on page 110 as follows:

"Since there is not general agreement on GAAP for non-profit organizations, the Study Group believes that any reference to "generally accepted accounting principles (for non-profit organizations)" should be resisted until the CICA Handbook is modified to apply to non-profit organizations. Instead, the audit report should refer to accounting principles set out in the notes to the financial statements, and the auditor must be satisfied that these principles are appropriate in the circumstances."

5.11 As a result of this it is now rare to see an auditor's report refer to GAAP for this type of entity where it was common only recently.

5.12 On March 31, 1981, the Board of Governors of the CICA established the Public Sector Accounting and Auditing Committee (PSAAC) *"to consider matters of public sector accounting and auditing theory and practice and to render on its own authority such pronouncements as it considers in the best interest of the community as a whole, and to provide for the growth of Canadian accounting and auditing literature for the public sector by encouraging specialized studies."*

5.13 In September, 1983, PSAAC issued "An Introduction to Public Sector Accounting and Auditing Recommendations". This document stated in paragraph .03 that *"the CICA Handbook accounting and auditing recommendations are intended to apply to all types of profit oriented enterprises whether in the public or private sector."*

5.14 In May, 1985, the PSAAC of the CICA issued Public Sector Auditing Statement 2 "Audit of Financial Statements in the Public Sector". It stated in paragraph .04 that *"when conducting an examination designed to express an opinion on financial statements, the auditor should do so in accordance with generally accepted auditing standards (GAAS) as set out in Section 5100 of the CICA Handbook".* Paragraph .08 states that *"Reporting Standard (iii) requires the expression of an opinion in accordance*

with an appropriately disclosed basis of accounting which, except in special circumstances should be GAAP. GAAP as set out in the CICA Handbook are appropriate for profit oriented enterprises in the public sector".

5.15 With the additional guidance now provided to the accounting profession by the CICA, I decided to re-examine the appropriateness of consolidated financial statements as presented by CIC. After considerable additional research, I concluded that since the requirements for a business combination under GAAP have not been specifically met, the economic unit portrayed by consolidated financial statements was not in accordance with generally accepted accounting principles. I also concluded that if aggregate financial statements are presented to the Legislative Assembly for the corporations subject to Part II of the Act and CIC, GAAP require that such financial statements be presented as combined financial statements rather than consolidated financial statements.

5.16 Because of the complex and sensitive nature of this issue, I again convened an independent panel of my peers consisting of the managing partners of a number of national firms of Chartered Accountants and a Professor of Accounting, University of Regina, to ensure that my conclusions were not different from what my professional colleagues would conclude in similar circumstances. After lengthy deliberations a majority of the panel agreed that a business combination had not occurred and agreed that it would not be appropriate for CIC to produce consolidated financial statements that consolidate Crown corporations which are not effectively controlled by CIC.

5.17 Since consolidated financial statements and combined financial statements are distinctly different in their nature and use, I concluded that the presentation of consolidated financial statements rather than combined financial statements at this level of aggregation did not represent GAAP.

5.18 The accounting profession has taken a considerable interest in the public sector in recent years and has provided clarification to auditors and financial statement preparers that was heretofore non-existent. The accountancy profession like all other professions is not static. It is changing rapidly not only in the public sector but also in the private sector. The banking and trust fund industries of the private sector are currently under scrutiny and I expect more changes will be forthcoming.

Professionals must be constantly aware of these changes and be prepared to adapt to new requirements. What may have been permissable in the past may not be acceptable when the body of knowledge increases to deal with prior uncertainties.

NON-COMPLIANCE WITH SUBSECTION 32(1.1) OF THE CROWN CORPORATIONS ACT, 1978

5.19 Further, with regard to this matter, as the financial statements for the Crown Investments Corporation of Saskatchewan are not in accordance with generally accepted accounting principles, it is my opinion that the Corporation has not complied with subsection 32(1.1) of The Crown Corporations Act, 1978, which states:

> *"Subject to any regulations that may be made by Treasury Board, the financial statements of the Corporation shall be drawn annually by the Corporation in accordance with generally accepted accounting principles."*

DEPARTMENT OF ADVANCED EDUCATION AND MANPOWER

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DEPARTMENT OF ADVANCED EDUCATION AND MANPOWER

EXPENDITURE CONTROL SYSTEMS

6.01 Each government agency has a responsibility to ensure that its expenditures are authorized by management in accordance with relevant legislation. In order to adequately discharge this responsibility each agency must have in place a system of controls sufficient to satisfy management that the above responsibilities are complied with.

6.02 The Comptroller, Department of Revenue and Financial Services makes payments for the Department which are charged to the Department's Consolidated Fund appropriations.

6.03 The Comptroller makes payments based upon payment vouchers which have been duly authorized by the officials responsible for the administration of the Department's appropriations.

6.04 The Comptroller subsequently produces a report for officials of the Department detailing the payments which were charged to the Department's appropriations.

6.05 The officials responsible for the administration of the Department do not have a control procedure to compare the monthly report of what was paid by the Comptroller and charged to the Department's appropriations to what the officials originally authorized to be paid.

6.06 The consequence of this weakness is that the Department of Advanced Education and Manpower may incur commitments in excess of the amounts appropriated or fail to detect incorrect, incomplete or unauthorized charges made against the appropriations for the Department.

6.07 The following observations were made where payments were inappropriately charged to an appropriation.

6.08 Nine grant payments totalling $239,525 made under the Department's 'Special Arda' program which should have been charged against vote 5, subvote 12 were incorrectly charged against vote 65, subvote 4, an appropriation designated for the Native Career Development Program. Management subsequently detected the errors and they were corrected.

6.09 A payment of $2,876 was made to a supplier based on an invoice apparently addressed to the Department of Advanced Education and Manpower. The invoice was approved for payment and paid out of an appropriation for Advanced Education and Manpower. However, the invoice was in respect of services rendered to the Department of Education. The error was subsequently detected and corrected.

6.10 A duplicate payment of $10,889 was made to a supplier. This error was discovered and a credit in the amount of the duplicate payment was issued by the supplier.

6.11 Four separate salary payments to one employee totalling $9,580 were charged against an incorrect subvote 'Grants to Archives Board'. Management subsequently detected the errors and corrected the errors.

DEPARTMENTAL ACTIONS WITHOUT APPARENT AUTHORITY

6.12 Various Acts of the legislature require that the approval of the Lieutenant Governor in Council be obtained prior to various actions being initiated by a Department.

6.13 A system adequate to ensure that prior approvals by Order-in-Council are obtained is necessary to an adequate overall system of management controls.

6.14 There did not appear to be specific control procedures at the Department to ensure appropriate authorizations were obtained.

6.15 During the examination, my representatives noted the following cases where prior approvals were not obtained:

6.16 An agreement between the Federal and Provincial Governments to amend a 1982 agreement under The Federal National Training Act was signed by the Minister of Advanced Education and Manpower and dated December 13, 1984. The

authority to enter into the agreement was obtained April 10, 1985, from Order-in-Council 392/85.

6.17 Section 11(1) of The Department of Advanced Education and Manpower Act states in part:

> *"11(1) In carrying out his duties under section 8, the minister may....*
>
> *(d) subject to the approval of the Lieutenant Governor in Council, establish, supervise and administer institutes:*
>
> *(i) for the purpose of extending educational and training opportunities to residents of Saskatchewan, other than those provided in schools administered under The Education Act;*
>
> *(ii) to provide courses of study or instruction to prepare residents of Saskatchewan for various trades or occupations."*

6.18 During the fiscal years 1985 and 1986, money was appropriated and expended for a new Northern Institute of Technology under the heading "Institute of Applied Arts and Sciences - Prince Albert".

6.19 In October, 1985, my representatives requested management of the Department to provide the required Order-in-Council which established the new Institute. Management was unable to provide such an Order-in-Council at that time. Subsequently, management provided my representatives with a copy of Order-in-Council 1177/85 dated November 21, 1985 which established the Institute.

6.20 Additionally, as the Order-in-Council establishing the Northern Institute of Technology was not obtained until November 21, 1985, all expenditures for the Northern Institute made until that date lack adequate statutory authority and, therefore, represent payments which are not properly vouchered or certified. Management of the Department has provided my representatives with the following estimates of such payments:

Department of Advanced Education and Manpower

1984/85 Institute of Applied Arts and Sciences - Prince Albert (subvote 38)	$ .9 million
1985/86 Institute of Applied Arts and Sciences - Prince Albert (subvote 38) paid to October 31, 1985	1.2 million
	$2.1 million

6.21 In my opinion, these payments were not properly vouchered or certified.

SASKATCHEWAN WINTER WORKS 85 PROGRAM

6.22 Officials of the Department administered the Saskatchewan Winter Works 85 Program. The Regulations governing this program set out specific criteria in order to be eligible to receive benefits under the program.

6.23 Officials of the Department determine the eligibility of an employer to receive benefits under this program based, in part, upon personal declarations by individual employees of the employer.

6.24 Officials of the Department did not have control procedures to verify the information contained in the individual employee's declarations.

6.25 The result of this weakness is that the system permits employers to receive benefits under the program for ineligible individuals.

6.26 Officials of the Department have informed me that subsequent to the period of my examination they undertook a post program review which includes independent verification of the validity of information in an employee's declaration. This verification is to be performed on a sample of employees rather than all employees for whom Winter Works grants were paid to employers. However, as of February 18, 1987, this review was not available to my representatives for examination.

DEPARTMENTAL REVENUES

6.27 In addition to the foregoing deficiencies in the management control systems for expenditures, my representatives made the following observations with regard to revenue:

6.28 Officials of the Department have not implemented appropriate procedures to ensure that all revenue received is recorded in the records of the Consolidated Fund.

6.29 My representatives became aware that officials of the Department received and deposited cash in the amount of approximately $119,916 on July 30, 1985. However, this receipt was not recorded in the official records for the Consolidated Fund until June 6, 1986, or approximately 11 months after the date of receipt.

6.30 The Department of Advanced Education and Manpower collected in excess of $30 million from the federal government as a federal contribution to Manpower training expenditures made by the Department of Advanced Education and Manpower. This revenue was collected pursuant to a Federal Provincial Agreement dated November 22, 1982, as amended by an agreement dated December 23, 1984. The agreement, as amended, reads in part:

> *"25. Installment Payments*
>
> *Subject to subsection 23(2) the Commission agrees to pay the Province each month during the currency of this agreement an amount for course purchases and variable administrative costs identified in paragraph 22(2)(a) that is consistent with the volume of training purchases for that month in terms of training days, plus 1/12 of the amounts agreed to for fixed provincial administrative services costs identified in subsection 22(2)(b) plus 4% of the amount of apprenticeship training purchases each month."*
>
> Subsection 23(2) referred to above states:
>
> *"Per diem prices as in subsection (1) shall apply to all purchases made for training given in the current fiscal year as evidenced by Course Purchase Notices. The per diem prices for the fiscal year 1982-83 are contained in Annex "B" attached hereto. The per diem prices for the fiscal years 1983-84, 1984-85 and 1985-86, must be approved and listed in amended Annexes "B" before any payment is made by the Commission for courses purchased in each of these years."*

6.31 During the course of the examination, my representatives observed that the Department did not consistently receive federal contributions monthly as provided for in the agreement. Such a lack of timely receipt will cause a loss of interest return to the Consolidated Fund.

6.32 Officials of the Department have indicated that this lack of timely receipt is caused by late federal government approval of Annexes B as required by Subsection 23(2). To the extent that such lack of timely federal government approval is repeated from year to year, the Department should investigate methods of obtaining timely approvals to avoid any loss of interest return.

KELSEY INSTITUTE OF APPLIED ARTS AND SCIENCES

6.33 Officials of the Department of Advanced Education and Manpower administer the Kelsey Institute of Applied Arts and Sciences Revolving Fund.

6.34 The Revolving Fund is used to finance a number of commercial activities at the Kelsey Institute of Applied Arts and Sciences such as the purchase and sale of books, etc.

6.35 The Department of Advanced Education and Manpower Act indicates that the minister may charge a fee for providing goods and services. My representatives were not provided with evidence of ministerial approval of fees charged.

6.36 In addition, the Treasury Board Accounting and Reporting Policy Manual indicates that recovery rates charged by Revolving Funds will be approved annually by Treasury Board through the budgetary review process. It also states that the methodology and assumed activity levels used to determine recovery rates must be included in the budget submission. My examination noted that the budget submission was incomplete in this regard, as the basis for recovery rate determination was not addressed.

6.37 As a result, Treasury Board directives have not been complied with and recovery rates have not been properly authorized.

SASKATCHEWAN TECHNICAL INSTITUTE

6.38 The Comptroller, Department of Revenue and Financial Services, makes payments which are charged to the appropriation for Saskatchewan Technical Institute Revolving Fund.

6.39 The Comptroller makes payments based upon payment vouchers which have been duly authorized by the officials responsible for the administration of the Revolving Fund.

6.40 The Comptroller subsequently produces a report for officials of the Department detailing the payments which were charged to the Revolving Fund appropriation.

6.41 The officials responsible for the administration of the Revolving Fund do not have a control procedure to compare the report of what was paid by the Comptroller and charged to the Revolving Fund appropriation to what the officials originally authorized to be paid.

6.42 Accordingly, there was an absence of a control procedure to ensure that only authorized transactions were charged to the Revolving Fund appropriation.

WASCANA INSTITUTE OF APPLIED ARTS AND SCIENCES

6.43 Each government agency has a responsibility to ensure that its expenditures are properly authorized by management in accordance with relevant legislation, and are accurately and completely recorded in its accounts. In order to adequately discharge this responsibility, each agency must have in place a system of internal control sufficient to satisfy management that the above responsibilities are complied with.

6.44 Additionally, all agencies must also have controls in place which allow the agency to prepare accurate financial statements in accordance with an appropriate basis of accounting.

6.45 The Comptroller, Department of Revenue and Financial Services makes payments which are charged to the appropriation for the Wascana Institute of Applied Arts and Sciences Revolving Fund.

6.46 The Comptroller makes payments based upon payment vouchers which have been duly authorized by the officials responsible for the administration of the Revolving Fund.

6.47 The Comptroller subsequently produces a report for officials of the Department detailing the payments which were charged to the Revolving Fund appropriation.

6.48 Officials of the Department use the report prepared by the Comptroller to record transactions in the records maintained by the Department.

6.49 Officials of the Department did not have a control procedure to compare the report of what was paid by the Comptroller and charged to the Revolving Fund appropriation to what the officials originally authorized.

6.50 In addition, officials of the Department did not have a control procedure to ensure that all payments which were charged to the Revolving Fund appropriation were recorded in the records of the Department. The Department's records are the records used to prepare the annual financial statements for the Revolving Fund.

6.51 Accordingly, there was an absence of control procedures in the Department to ensure that only authorized transactions were charged to the Revolving Fund appropriation and to ensure that essential records were maintained that permit officials to prepare accurate financial statements.

6.52 When presented with the information that appropriate management controls were absent, the officials responsible for the Revolving Fund chose to investigate all authorized transactions against the Comptroller's reports. This investigation, conducted after the fiscal year end, identified authorized expenditures totalling $143,250 which had not been recorded in the Department's records. The Department's records were adjusted to reflect these payments so that the financial statements, to be tabled in the Legislative Assembly, reflected the correct results of operations for the fiscal year.

6.53 Further, the study and evaluation of management controls also indicated that there was not a control procedure to ensure that the cash pricelist for books was independently checked before the prices were authorized for use by the bookstore managers.

6.54 This weakness in procedures allows the possibility of sales being made at inappropriate prices.

SASKATCHEWAN STUDENT AID FUND

6.55 One of the eligibility conditions for a student to receive assistance under The Student Assistance and Student Aid Fund Act is that the student must be enrolled with an eligible institution as set out in section 1 of the Regulations under this Act.

6.56 Officials of the Department maintain a "criteria master file" of educational institutions. In order for students to receive assistance the student must be enrolled with an institution that is listed on the "criteria master file".

6.57 My representatives determined that there was not a control procedure to ensure that all agencies on the "criteria master file" were authorized as educational institutions as provided for in the Regulations pursuant to The Student Assistance and Student Aid Fund Act.

6.58 My representatives discovered two instances where bursaries totalling $3,160 were paid to students attending institutions which had not been authorized in accordance with the Regulations.

COMMUNITY COLLEGES

6.59 Section 41 of The Department of Finance Act, 1983 states that:

> *"Notwithstanding the provisions of any other Act, no department, board, commission or agent of the Government of Saskatchewan and no Crown corporation shall borrow any moneys without the approval of the Minister."*

It was observed that for the year ended June 30, 1985, LaRonge, Prince Albert, Mistikwa and South East Region Community Colleges had reported bank overdrafts or lines of credit. My representatives have not been provided with evidence that these borrowings have been approved by the Minister of Finance as required by The Department of Finance Act, 1983.

6.60 It was observed that certain transactions of the Saskatchewan Indian Community College were not in compliance with the authorities governing its operations.

6.61 The Community Colleges Act requires that all cheques and supporting data be reviewed by two authorized cheque signers. Currently, cheques issued for a value of $2,000 or less are reviewed by only one cheque signer. Currently, all disbursement transactions $2,000 or less are reviewed and approved by the Program Director and one authorized cheque signer.

6.62 The Community Colleges Act also requires Department of Advanced Education and Manpower approval for all fixed asset dispositions. While disposals are not frequent and are for insignificant amounts, to date, Department of Advanced Education and Manpower approval has not been obtained for any fixed asset dispositions.

6.63 The College wrote off the following accounts receivable without the required approval of the Board of Revenue Commissioners:

Federation of Saskatchewan Indians Inc.	$69,893
Sturgeon Lake Band	7,227
Peepeekesis Band	12,469

DEPARTMENT OF AGRICULTURE

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7

DEPARTMENT OF AGRICULTURE

1985 CROP DROUGHT ASSISTANCE PROGRAM

7.00 The Department is responsible for grant payments under the Crop Drought Assistance Program pursuant to The 1985 Crop Drought Assistance Program Regulations. During the course of the examination, it was observed that the Saskatchewan Crop Insurance Corporation is administering these grants on behalf of the Department. The Department, however, receives no assurance that grants under the program are authorized, accurate or complete. The condition noted is a result of inadequate control procedures as opposed to lack of compliance with an existing system of internal control. This weakness increases the risk of inaccurate and unauthorized payments being made without ready detection.

7.01 During the course of my examination, the following instances were noted where incorrect and unauthorized grant payments were made:

7.02 Section 420 of the Treasury Board Accounting and Reporting Policy Manual reads as follows:

> *"The Legislature approves an annual expenditure plan based on cash expenditures rather than commitments for the year. Similarly, revenues are estimated in the budget presented to the Legislative Assembly on the basis of estimated cash collections, not on the basis of taxes or fees being assessed. A cash basis of accounting is therefore used to reflect transactions consistent with the way in which the authority to spend is granted and the net debt measured.*
>
> *Under the cash basis of accounting, revenues are recorded as received and expenditures are charged to the accounts when payment is made."*

7.03 It was observed that cheques for grant payments totalling approximately $2 million were written in the 1985/86 fiscal year and the 1985/86 appropriation was charged. The

cheques, however, were not released until after April 30, 1986. In my opinion, these payments were improperly charged to the 1985/86 appropriation.

7.04 Seventy five calculation errors and amendments to the Crop Insurance claims resulted in grant overpayments of $207,500 as determined by the Department.

7.05 One grant, amounting to $7,084, was paid where evidence of the recipient's eligibility did not exist.

AGRICULTURAL LANDS

7.06 The financial statements for the Saskatchewan Heritage Fund show an asset of approximately $159 million called investment in agricultural lands.

7.07 The maintenance of the record of the land and related assets which make up this investment is the responsibility of officials of the Department of Agriculture.

7.08 It was observed that there is not a control procedure requiring a reconciliation of the record maintained by the officials of the Department of Agriculture to the amount recorded as an asset in the Saskatchewan Heritage Fund.

7.09 The absence of this control procedure allows the possibility that the reported amount of investment in agricultural lands may not be supported by physical assets.

FARM PURCHASE PROGRAM

7.10 Officials of the Department of Agriculture administer the Farm Purchase Program which provides assistance to individuals pursuant to specified eligibility criteria.

7.11 Officials of the Department authorize payments under this program based upon information obtained by a personal declaration from the individual on the program enrollment form.

7.12 My representative observed that the Department had no system in place to check the information provided by the individuals enrolling in the program after March 31, 1985 to ensure individual's eligibility to receive benefits. Additionally, for all participants receiving interest rebates, no check was being

made to ensure the individual had continued his/her eligibility to receive benefits under the program. As a result benefits may be paid to ineligible individuals.

CONSERVATION AND DEVELOPMENT REVOLVING FUND

7.13 Essential to any effective system of internal control is a system of management controls which permit management to effectively discharge its responsibilities of reviewing, analyzing, and controlling operations of the organization. A key element of such a system is an effective interim financial reporting and monitoring system.

7.14 In this regard, the Provincial Comptroller in section 1010 of the Financial Administration Manual identifies the need for financial statements to provide information on a timely basis to enable management to assess performance, and adjust operations as necessary, in order to meet targets established in the budget.

7.15 During the period of my examination for the current year, my representatives observed that interim quarterly financial statements had been prepared for the months of June, September and December, 1985. However, these financial statements were deficient in the following respects:

i) actual results are not compared with either year-to-date budget figures or actual results of the corresponding period of the previous year, and

ii) the financial statements are in aggregate only, rather than segmenting operations for each of the four farms operated by the Revolving Fund.

7.16 Therefore, in my opinion, this financial statement format substantially reduces the ability of management to review, analyze and control the operations of the Revolving Fund.

7.17 The possible consequence of this weakness is that management is unable to effectively assess the performance of the Revolving Fund and adjust its operations in order to meet targets established in the budget, and further, management controls are unlikely to detect problems resulting from specific internal control weaknesses such as those discussed later in this chapter.

7.18 Each government agency has a responsibility to ensure that its transactions are properly authorized by management in accordance with relevant legislation, and are accurately and completely recorded in its accounts. In order to adequately discharge this responsibility, each agency must have in place a system of internal controls sufficient to satisfy management that the above legislative responsibilities are complied with.

7.19 Additionally, all agencies must also have controls in place which allow the agency to prepare accurate financial statements in accordance with the appropriate disclosed basis of accounting.

7.20 The Comptroller, Department of Revenue and Financial Services, makes payments which are charged to the appropriation for the Conservation and Development Revolving Fund. These payments are made based upon payment vouchers authorized by officials of the Department of Agriculture. The Comptroller subsequently produces a report for the Department of Agriculture showing all payments and receipts charged and credited to the Revolving Fund appropriation.

7.21 Monthly reports produced by the Comptroller are summarized by management of the Department in a manual summary sheet to prepare financial statements. As such, the Comptroller's reports and the manual summary sheet together constitute the Department's books of account for the Revolving Fund.

7.22 However, there is no system in place at the Department to ensure that all payroll and other expenditures recorded by the Comptroller have been authorized by management and that all authorized transactions have been accurately and completely recorded in the books of account of the Revolving Fund. Further, the manual summary sheets used to build up the financial statements do not identify how the accounts are grouped together from the Comptroller's reports. Thus, the records lack a management trail to allow tracing of transactions from the appropriate originating source or vice versa.

7.23 The possible consequence of this weakness is that management may fail to detect incorrect, incomplete or unauthorized expenditures charged against the Revolving Fund in the Comptroller's reports and in the resulting financial statements on a timely basis.

7.24 In addition to the general control requirements for accurate preparation of financial statements discussed in paragraphs 7.19 - 7.23 above, certain additional control procedures are necessary to prepare accurate annual financial statements. In cases where inventory is a significant financial statement item, management must establish controls to ensure that inventory is counted properly and priced correctly in order to establish an accurate inventory valuation for the purpose of preparing financial statements.

7.25 In my annual report for the year ended March 31, 1985, I reported that management responsible for the administration of the Revolving Fund had not implemented an adequate system to determine an accurate year end value of inventory for the purpose of preparing financial statements.

7.26 During my examination for the current year, the following came to my attention:

i) A system of inventory count procedures adequate to detect material inventory count errors did not exist. This weakness was the result of management's failure to identify the need for independent verification of all inventory counts given the incompatible duties, of custody of assets and reporting the movement of assets, assigned to the farm managers who performed the counts.

ii) A system of inventory pricing procedures adequate to detect material inventory pricing errors did not exist.

7.27 The possible consequence of this absence of adequate controls is that material errors could occur in inventory value at year end and inaccurate annual financial statements could be prepared as a result.

7.28 When informed of these inventory deficiencies, management chose to perform an independent count of inventory subsequent to year end for the particular farm which had not had an independent inventory count done at year end. When management reconciled that count to inventory movements subsequent to year end, management of the Revolving Fund concluded that inventory as at March 31, 1986 had been materially overstated in the amount of approximately $36,000.

7.29 Management also chose to perform additional procedures to ensure that the inventory prices had been calculated correctly. As a result of this procedure, management of the Revolving Fund concluded that inventory as at March 31, 1986 had been materially overstated in the amount of approximately $50,000.

7.30 Management responsible for the administration of the Revolving Fund adjusted the records of the Revolving Fund for the above errors so that the financial statements, to be tabled in the Legislature, reflect the correct results of operations and inventory values at year end.

7.31 Typically, in any effective system of internal control there is a segregation of duties between custody of assets and reporting of the movements of those assets. However, in the Department's situation, the managers of each of the four farms have the responsibility of both custody of livestock and reporting of livestock movement. The absence of segregation of duties creates the possibility, for the person given the incompatible duties, to both perpetrate and conceal a theft of the livestock.

7.32 In a farm environment, it may not be practical to segregate these two incompatible duties. In such instances, it is necessary to institute compensating management controls which are at least sufficient to detect and investigate any unusual shortages on a timely basis.

7.33 To this end, the Farm Co-ordinator and Assistant Farm Co-ordinator who are based in Regina review the Revolving Fund's interim financial statements, periodically travel to each farm, and receive and analyze monthly inventory movement reports from each farm manager.

7.34 The limitations of the Conservation and Development Revolving Fund's interim financial statements as a compensating management control have been reported earlier. Thus, periodic travel to each farm and analysis of the monthly inventory movement reports each assumes additional importance. However, the periodic travel to each farm and analysis of the monthly inventory reports by management was seldom documented in writing.

7.35 My representatives observed the following circumstances which tend to suggest that these management controls are not functioning with adequate documentation and with a degree of precision sufficient to safeguard public property in the form of livestock:

i) First, my representatives observed certain inconsistencies such as differences in reporting livestock quantities from month to month in the monthly inventory reports of one of the four farms. When my representatives inquired, management of the Revolving Fund explained these inconsistencies as being the result of poor recordkeeping by the farm manager because the calf birth rate previously reported by the farm manager appeared to be overstated for this particular farm. However, the monthly inventory reports had not been adjusted in accordance with this explanation.

ii) Second, as discussed in paragraph 7.25 and 7.26, management responsible for the Revolving Fund reviewed and accepted livestock quantities reported by the manager of one of the farms and used these quantities in the financial statement preparation. After an independent inventory count subsequent to year end, management concluded that the original quantities were materially misstated in the amount of approximately $36,000.

7.36 In my opinion, the failure of the management responsible for the administration of the Revolving Fund to identify the material errors in the inventory movements as reported to it by the farm managers indicates that management controls are not in fact sufficiently strong to effectively compensate for the lack of segregation of duties performed by the farm managers.

7.37 The possible consequence of this weakness is that livestock inventory may not be adequately safeguarded and losses in an amount material to the Revolving Fund would not be detected on a timely basis.

7.38 Essential to any adequate system of internal control is a system to ensure that all sales are recorded in the accounts and all sales revenue is subsequently collected.

7.39 A typical element of such a system is a procedure of making a formal record of sales at the time of shipment and independently reconciling this record to subsequent receipts of revenue. Such a system usually uses an accounts receivable ledger.

7.40 Management responsible for the Revolving Fund have informed my representatives that the majority of sales made by the Revolving Fund are placed by management in Regina, but no formal record is made of these sales for reconciling to the subsequent cash receipt. Instead, management of the Revolving Fund relies on their experience in the industry and a relatively few number of sales to allow them to anticipate revenue.

7.41 Additionally, much of the revenue collected by the Revolving Fund is not received directly by the head office in Regina, but rather is received by the four farm managers and forwarded to Regina for deposit and recording. In recognition of the incompatible duties already assigned to farm managers as discussed in paragraph 7.31, and the lack of formal written sales records, receipt of cash by farm managers is yet another compromise of internal control.

7.42 The possible consequence of this weakness is that revenue due to the Revolving Fund may not be received, and any loss of revenue would not be detected on a timely basis.

SASKATCHEWAN SHEEP AND WOOL MARKETING COMMISSION

7.43 Marketing Order 5/78, issued by the Saskatchewan Sheep and Wool Marketing Commission, pursuant to the provisions of the Saskatchewan Sheep and Wool Marketing Plan and The Natural Products Marketing Act, requires all livestock dealers, processors, sheep associations or wool dealers who handle Saskatchewan sheep and wool to be registered with the Saskatchewan Sheep and Wool Marketing Commission. At present, a register of all livestock dealers, processors, sheep associations or wool dealers who handle Saskatchewan sheep and wool is not maintained by the Commission. In the absence of such a register the Commission cannot ensure that all livestock dealers, processors, sheep associations or wool dealers who handle Saskatchewan sheep and wool remit appropriate check-off fees on a regular basis.

7.44 Marketing Order 23/84, issued by the Saskatchewan Sheep and Wool Marketing Commission, pursuant to the provisions of the Saskatchewan Sheep and Wool Marketing Plan and The Natural Products Marketing Act, requires every livestock dealer, processor and sheep association to be liable for the accounting for, collection of, and remittance of sheep and lamb check-off fees to the Commission. The Commission, however, does not have a system to ensure compliance with Marketing Order 23/84, and therefore cannot ensure that check-off fees are collected by all livestock dealers, processors and sheep associations and that all check-off fees collected are subsequently remitted to the Commission.

7.45 This matter was reported in previous annual reports. The Standing Committee on Public Accounts considered this matter during a public hearing on March 15, 1985 when an official from the Commission appeared before the Committee as a witness.

7.46 The Committee recommended no further action at that time.

SASKATCHEWAN BEEF STABILIZATION BOARD

7.47 The Saskatchewan Beef Stabilization Board administers the Saskatchewan Agricultural Returns Stabilization Fund (Cow Calf to Finish and Feeder Finish Market Insurance Plans).

7.48 In my 1985 annual report I reported as follows:

> *"The regulations under the Cow/Calf and Feeder/Finish Insurance Plans gives the Board the responsibility for collecting levies on animals that are marketed outside the Board. The Board has not established a system to ensure that all such marketings are recognized and the appropriate revenue is recorded in the accounts of the Stabilization Fund.*
>
> *The Board has developed a procedure whereby with the use of a computer program, a comparison is made between animals enrolled and animals marketed through the Board. The difference so calculated will be invoiced to each producer. The producer will either pay the invoice or declare that he has not sold animals outside the Board and*

the invoice will then become null and void. After the Board receives a reply from the producer the Board intends to develop a system to ensure that the producer has correctly responded to the invoice. This may be by field visits or other means."

7.49 During the year under review invoices were mailed out for all the years in question and follow up procedures were instituted to determine the validity of the responses. Thus the existence and the accuracy of the shortfall receivable has been determined. However, a problem exists with regard to establishing the valuation of those receivables. Officials have not developed a system or method to reasonably determine such a value and accordingly the revenue to be recorded in the Fund also cannot be reasonably determined.

7.50 The result of this deficiency is that accurate and timely financial statements cannot be prepared for both interim financial reporting and year end purposes.

7.51 In addition, there was an absence of control procedures to ensure the accuracy of stabilization payments to producers.

7.52 A new system was developed to automate the calculation of the subsidy payments for the above mentioned plans. There was insufficient testing and review procedures for the new system before the system was implemented.

7.53 The result of these inadequate testing and review procedures was that there was an error in the methodology for the calculation of the subsidy payment. This error in methodology resulted in underpayments to producers.

7.54 In addition to the foregoing deficiencies in the management control system my representatives made a number of observations regarding transactions entered into by the Board which did not appear to be in compliance with the legislation under which the Board operates.

7.55 My representatives observed the following inconsistency regarding the calculation of the stabilization payments pursuant to the Cow Calf to Finish Market Insurance Plan.

7.56 One of the costs included in the calculation of the support price is the cow investment cost. Regulation 25(6)(h) specifies that this amount is the product of the seven year average bond interest rate and the average cost of a replacement heifer. The average cost of a replacement heifer is stated to be the current calculated cost, adjusted for each previous year by the animal production cost index.

7.57 Rather than calculate the average cost of a replacement heifer by the use of the animal production cost index, the Board has used actual costs for those years where such figures are available. This lack of compliance with the regulation resulted in significant stabilization underpayments.

7.58 My representatives observed the following inconsistency with the regulations regarding the refund of levies on contract termination.

7.59 The regulations establishing the Cow Calf to Finish Market Insurance Plan state:

> *"A participant may withdraw from the plan, with the board's permission, if he pays to the board all of the payments that he has received under the plan with interest less any levies deducted."*

7.60 The Board's interpretation of these regulations was that if a producer had paid levies in excess of amounts that he had received in stabilization payments, he could withdraw from the plan and receive a refund from the stabilization fund of the excess amount of his contributions.

7.61 Based on this interpretation, the Board refunded $3,645 under the Cow Calf program during the year ended March 31, 1986.

7.62 According to an interpretation I have received from my legal counsel, the Board's interpretation was not correct and therefore, in my opinion, these payments were made without statutory authority.

7.63 This matter was reported in my 1985 annual report where the amount of refunds without authority was $57,051.

7.64 My representatives observed an inconsistency with the regulations regarding the policy of allowing a producer to exceed his contract in a fiscal year.

7.65 The Board has established a policy called the "Borrow Ahead" option. This option is sometimes given to producers although it is not provided for in the regulations. It allows a producer who has fulfilled his current contractual obligations, but who has his next fiscal year's animal production ready to slaughter, to receive stabilization payments for those animals in this fiscal year rather than next. Typically, these are cases where a producer would normally slaughter his animals in April or May every year but in 1986 animals were ready for slaughter in March. The Board allowed him to slaughter in March, even though he had slaughtered his "quota" earlier in the fiscal year (April or May, 1985). Such producers thus received double stabilization payments in one fiscal year which payments do not appear to have adequate authority.

7.66 My representatives observed a conflict between two clauses of the regulation for the Feeder Finish to Market Insurance Plan.

7.67 There are two conflicting regulations concerning the number of animals to be enrolled in the plan. Regulation 8(5) states that a participant shall participate with all cattle in which he has an interest, whereas regulation 12(1) allows for the enrollment of either all or a specified number of cattle. The Board allows registration in accordance with regulation 12(1).

7.68 This conflict should be removed from the regulations so that there is no doubt as to the intention of the regulations.

7.69 At March 31 1987, I have not completed my examination of the accounts of the Board for the year ended March 31 1986 as officials of the Board have not as yet provided me with financial statements.

7.70 Accordingly, should it be necessary to express a reservation in my auditor's report on the 1986 financial statements, I will report this matter in my next annual report.

7.71 This delay in preparing the financial statements results in reduced accountability of the Board to the Members of the Legislative Assembly.

8

DEPARTMENT OF CONSUMER AND COMMERCIAL AFFAIRS

8.00 The Provincial Mediation Board is responsible to administer The Residential Tenancies Act.

8.01 The Department of Consumer and Commercial Affairs maintains the accounting records and handles administration matters for the Board.

8.02 Sections 71 and 83 of The Residential Tenancies Act requires the Office of the Rentalsman, the Saskatchewan Rent Appeal Commission, and the Residential Tenancies Review Board to submit to the Minister in Charge of the Provincial Mediation Board, in accordance with The Tabling of Documents Act:

a) Annual reports respecting the conduct of the business and affairs of the Rentalsman, the Commission and the Board.

b) Financial statements for the Rentalsman, the Commission and the Board.

8.03 The same sections require the Minister to lay the annual reports and financial statements before the Legislative Assembly in accordance with The Tabling of Documents Act.

8.04 It was observed during the audit that the annual reports and financial statements were not submitted to the Minister for the 1984/85 fiscal year for the Office of the Rentalsman and the Residential Tenancies Review Board.

8.05 Without these annual reports and financial statements the ability of the Members of the Legislative Assembly to hold the executive government accountable for the administration of these programs is diminished.

9

DEPARTMENT OF CO-OPERATION AND CO-OPERATIVE DEVELOPMENT

9.00 Each government agency has a responsibility to ensure that its expenditures are authorized by management in accordance with relevant legislation. In order to adequately discharge this responsibility each agency must have in place a system of controls to ensure that transactions are properly authorized, accurate and complete.

9.01 The Comptroller, Department of Revenue and Financial Services makes payments for the Department which are charged to the Department's appropriations.

9.02 The Comptroller makes payments based upon payment vouchers which have been duly authorized by the officials responsible for the administration of the Department's appropriations.

9.03 The Comptroller subsequently produces a report for officials of the Department detailing the payments which were charged to the Department's appropriations.

9.04 There is no documented evidence that the Department of Co-operation and Co-operative Development has adequate procedures in place to establish the authorization, completeness and accuracy of salary costs which are charged against its appropriations on reports produced by the Comptroller.

9.05 The consequence of this weakness is that the Department of Co-operation and Co-operative Development may fail to detect inaccurate or unauthorized charges made against the Department's appropriations on a timely basis.

DEPARTMENT OF ECONOMIC DEVELOPMENT AND TRADE

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DEPARTMENT OF ECONOMIC DEVELOPMENT AND TRADE

DEPARTMENTAL APPROPRIATIONS

10.00 Each government agency has a responsibility to ensure that its expenditures are properly authorized by management in accordance with relevant legislation and that they are accurately and completely recorded in its accounts. In order to adequately discharge this responsibility each agency must have in place a system of management controls sufficient to satisfy management that the above responsibilities are complied with.

10.01 Such a system would include written communication of policy and delegation of authority from senior management to employees together with a system of controls to ensure that all transactions comply with the policies and delegation of authority.

10.02 Additionally, all agencies which prepare financial statements must also have controls in place to enable the agency to prepare financial statements in accordance with an appropriate basis of accounting in order to control the financial affairs of the organization.

10.03 During 1985/86 fiscal year, the Department of Economic Development and Trade (EDT) obtained from the Department of Supply and Services the following accounting and financial reporting services:

i) receiving, recording and depositing revenues of EDT;

ii) processing payments and journal vouchers, based on supporting documents approved by the relevant officials at EDT, into the central Revenue and Expenditure System (R.E.S.) maintained by the Comptroller, Department of Revenue & Financial Services;

iii) providing payroll and personnel functions; and

iv) in the interest of expediency, processing a number of payments, primarily relating to such items as telephone, airline travel and Central Vehicle Agency costs, prior to obtaining written approvals as to the propriety of the payments from appropriate officials at EDT.

10.04 Under these circumstances, some branch officials of EDT reviewed and evidenced their review of the periodic financial reports produced by the Central R.E.S. system to establish the accuracy, authorization and completeness of the payroll and other expenditures charged against their appropriation. However, the requirements of such review procedures were neither well documented nor sufficiently monitored by senior management to ensure consistent and properly evidenced compliance by all the branch officials.

10.05 The absence of documented procedures and evidence of monitoring increases the risk that employees may not carry out the appropriate review to effectively control the Department's appropriations with the result that the risk is increased that commitments may be incurred in excess of that allowed by statute or officials may fail to detect on a timely basis, incorrect, incomplete or unauthorized charges made against the Department's appropriation.

THE MARKET DEVELOPMENT FUND

10.06 Officials of the Department of Economic Development and Trade administer The Market Development Fund for the Market Development Committee.

10.07 The Comptroller, Department of Revenue and Financial Services, makes all payments on behalf of The Market Development Fund.

10.08 The Comptroller makes payments based upon payment vouchers which have been duly authorized by those officials authorized to do so by Treasury Board.

10.09 The Comptroller subsequently produces a report for officials of the Department detailing the payments which were charged to the appropriation for The Market Development Fund.

10.10 Officials of the Department did not have a control procedure in place to compare the report of what was paid by

the Comptroller and charged to The Market Development Fund to what the officials originally authorized.

10.11 Further, officials of the Department did not maintain complete accounting records for all of the transactions of the Fund that would permit them to prepare accurate and complete financial statements for review by the Committee. Timely and accurate financial statements are necessary for the Committee to control the finances of The Market Development Fund.

10.12 Accordingly, there was an absence of control procedures in the Department to ensure that only authorized transactions were charged to The Market Development Fund and to ensure that the financial affairs of the Fund were appropriately controlled.

10.13 The following audit observations result from the foregoing management control deficiencies:

i) The amount budgeted by the Department of Economic Development and Trade to be transferred to the Fund totalling $294,250 was not paid into the Fund resulting in a shortfall in revenue anticipated to be received by the Committee;

ii) Payments totalling $14,038 on four projects were improperly processed, being charged to Consolidated Fund appropriations for the Department of Economic Development and Trade rather than to the interfund account balance;

iii) Coding errors were made on two payments with the result that they were misclassified within the Fund;

iv) Payments submitted for processing in April, 1986 totalling $24,593 were recorded in error as expenditures of the 1985/86 year;

v) During the year, all requisitions for payment initiated by Committee officials were sent to the Department of Supply and Services for further processing including final approval to authorize the Comptroller to record the transactions. However, staff at that Department were removed as signing officers by Treasury Board Order #63 dated May 27, 1985. As a result of the

absence of control procedures to ensure that all transactions are authorized, expenditures totalling $210,517 were made without authority.

HONG KONG TRADE OFFICE

10.14 In addition to the foregoing deficiencies in the management control systems, my representatives made a number of observations where officials of the Department transacted business for the Hong Kong Trade Office which transactions did not appear to have adequate authority.

10.15 The Lieutenant Governor in Council authorized that agreements be entered into to lease property for the provision of commercial operations and residential accommodations for the Trade Office in Hong Kong in a total amount not to exceed $150,000.

10.16 This Order-in-Council was issued under the authority of Section 9 of The Department of Economic Development and Trade Act which provides, in part, in subsection 9(2), that:

> *"The Minister shall obtain the approval of the Lieutenant Governor in Council before entering into any agreement on behalf of the Government of Saskatchewan...whereby the Government of Saskatchewan is liable to make expenditures in excess of $10,000."*

10.17 During the period under review, my representatives noted that two leases were entered into by officials pursuant to the above mentioned Order-in-Council for a period of three years at an annual rental of approximately $168,000 and totalling approximately $504,000 over the three year lease term. In addition refundable deposits totalling approximately $28,000 were also paid.

10.18 The amounts the Government of Saskatchewan is liable to pay under these leases exceeds the total amount stipulated by the Order-in-Concil.

10.19 In addition, during the course of the examination, my representatives noted two payments for the Hong Kong Trade Office, one for furniture totalling approximately $13,900 and one for fittings totalling approximately $17,800, that were made without apparent authority.

10.20 In this connection subsection 12(4) of The Department of Economic Development and Trade Act states, in part:

> *"The approval of the Lieutenant Governor in Council is to be obtained for any acquisition or disposition of property...where the value of the property exceeds $5,000."*

10.21 Although the above mentioned payments exceeded the stipulated amount of $5,000 the authorization of the Lieutenant Governor in Council was not obtained for these transactions.

DEPARTMENT OF EDUCATION

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11

DEPARTMENT OF EDUCATION

11.00 During the examination of the accounting records and related systems of internal control, my representatives observed the following instances where school grants were paid in amounts other than what was authorized to be paid.

SCHOOL OPERATING GRANTS

11.01 School operating grants were paid at rates in accordance with Regulations which did not come into force until March 19, 1986. This resulted in all school operating grants being paid at rates that were not authorized at the time the operating grants were paid in full.

NORTHERN SCHOOL DISTRICT GRANTS

11.02 Payments were made to Northern School Districts in amounts other than those authorized by the Regulations which provide the authority for Northern School District grants.

11.03 Northern School District grants use a computational mill rate for the calculation of the amount of the school grant.

11.04 The Regulations provide that the computational mill rate for the calculation of Northern School District grants is 80.0. These Regulations were amended during the year under review.

11.05 Payments were made to Northern School Districts using a computational mill rate of 95.5.

11.06 My representatives were informed that when the Regulations were amended it was intended that the computational mill rate would be stated as 95.5 in the amended Regulation.

11.07 Had the computational mill rate stated in the Regulations been used, additional payments totalling $288,701 would have been made to Northern School Districts.

SCHOOL CAPITAL GRANTS

11.08 Overpayments of school capital grants were made to:

Regina School Division #4	$25,078
Saskatchewan Valley School Division #49	4,196

11.09 An underpayment of $51,903 for the Moose Jaw School Division #1 occurred as a result of a calculation error made by the Department.

THE TEACHERS' SUPERANNUATION COMMISSION

11.10 The Teachers' Superannuation Commission administers The Teachers' Superannuation Act. The Teachers' Superannuation Act created a number of special purpose funds for the administration of the Teachers' Superannuation Plans.

11.11 During the course of the examination of the accounts of the Teachers' Superannuation Commission my representatives made a number of observations regarding the authority for certain actions of the Commission.

11.12 Clause 18(1)(a) of The Teachers' Superannuation Act requires the Minister of Finance to make certain payments to the Teachers' Superannuation Fund. In particular, subclause 18(1)(a)(i) states:

> *"The Minister of Finance shall cause to be paid into the Teachers' Superannuation Fund sufficient money, as may be required from time to time, to make it possible at all times to pay the allowances granted under this Act or a former Act;..."*

11.13 At present, the Commission prepares an annual estimate of the cash flow deficiency resulting from the excess of allowances to be paid over the sum of:

i) teachers' accumulated contributions including interest credited and matching Minister of Finance contributions in respect of teachers who will superannuate during the year, and

ii) the excess of investment earning receipts over amounts required to be credited to teachers' accounts for purposes of calculating the minimum fund balance as described in subsection 14(1) of the Act.

11.14 Additional payments during the fiscal year are paid to the Fund under the provisions of subclause 18(1)(a)(i) based on this calculation although this amount may be reduced at year end as a result of the reallocation of any shortfall in matching contributions arising from differences between estimated and actual matching amounts. The accumulated amount of monies in excess of the minimum fund balance that is required to be maintained pursuant to subsection 14(1), on behalf of teachers who have not retired, is not taken into account in the calculation of the additional amount to be paid by the Minister of Finance. Legal advice provided to the Commission has indicated that subclause 18(1)(a)(1) is sufficiently unclear that it should be amended so as to clearly reflect the intentions of the Legislature. Accordingly, it is recommended that the Act be amended to clarify what amounts the Legislature intends are required to be paid under subclause 18(1)(a)(i).

11.15 In addition, the Commission is required by The Teachers' Superannuation Act to underwrite annuities payable to teachers eligible to receive such allowances from the Annuity Fund. Due to uncertainties related to future trends and events such as investment earnings and annuitant mortality rates, it is possible for this type of operation to incur losses. Although the Act stipulates that annuity payments are to be made from the Fund, Section 18(1)(b) of the Act, governing payments by the Minister of Finance to the Fund, does not presently provide a means for any possible future deficits to be funded. Consideration should be given to having the Act amended to permit the Fund to receive monies for this purpose.

11.16 I reported these matters to the Minister of Education in a memorandum of May 20, 1986.

11.17 The Minister of Education responded that the government recognized the problem and that the government was constrained in its action by subsection 232(1)(a)(iii) of The Education Act which requires that any amendments to The Teachers' Superannuation Act must be the result of the collective bargaining process.

11.18 The Minister also informed me that my concerns would be forwarded to the government caucus of the government-trustee provincial bargaining team for consideration for future collective bargaining.

11.19 My representatives also observed that the Commission's bank accounts were on occasion overdrawn. At June 30, 1985 the amount of the overdraft in the payroll account was approximately $.5 million.

11.20 It is my opinion that the Commission did not have appropriate authority to incur this debt.

12

DEPARTMENT OF ENERGY AND MINES

12.00 Officials of the Department maintain a computer file, called "The Petroleum Master File", which is used to verify the accuracy and completeness of petroleum and natural gas royalties paid by the industry.

12.01 This file contains information concerning the amounts paid by a royalty payor and is used in the determination of the amount which should be paid.

12.02 At the time of my representatives attendance at the Department, officials of the Department were approximately four months in arrears in their processing of information necessary to maintain "The Petroleum Master File" in a current condition.

12.03 This delay in the processing of information results in officials of the Department being unable to verify the accuracy of the petroleum and natural gas royalties being paid to the Department on a timely basis.

12.04 Accordingly, officials of the Department cannot promptly bill or credit royalty payors for any differences between the actual royalties due and the amount estimated and already paid by the industry.

12.05 The effect of this delay in processing of invoices and credits for royalty payors places a greater amount of risk on the collection of royalties receivable, particularly if a royalty payor were to become bankrupt. In addition, the ability to submit accurate and complete claims to a trustee in bankruptcy on a timely basis is diminished.

12.06 Further, "The Petroleum Master File" provides essential information to enable officials of the Department to maintain the oil and gas industry's compliance with varous Acts and Regulations. The effectiveness of the Department's monitoring activity is diminished by the file not being up-to-date.

12.07 The delay in processing information critical to "The Petroleum Master File" could also lead to increased risk of control breakdowns over the master file updating process due to increased processing pressures brought about by large volumes of unprocessed data.

12.08 During the audit my representatives made the following additional observation regarding the collection of royalty revenue.

12.09 Part IV of The Oil and Gas Conservation, Stabilization and Development Act, 1973, acquired for the Crown the oil and gas rights of all mineral owners with producing tracts aggregating more than 1,280 acres. This entitled the Crown to receive all royalties specified in lease agreements with the former mineral rights owners and to deem lease agreements to exist in situations where the mineral right owners were also the well operators. In return the legislation provided compensation to the mineral rights owners based upon December 10, 1973 prices.

12.10 The above legislative provisions were fully implemented regarding oil mineral rights but the Department did not implement the royalty and compensation provision for gas rights. This, in my opinion, constitutes legislative non-compliance and results in lost revenues to the Crown.

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DEPARTMENT OF FINANCE

SASKPEN PROPERTIES LTD.

13.00 In my 1984 annual report to the Legislative Assembly I reported that a Crown agency had been established under The Business Corporations Act for the purpose of acquiring interests in real property and leaseholds out of funds provided by a number of Crown administered pension funds.

13.01 The Crown agency is called SaskPen Properties Ltd. (SaskPen), and is beneficially owned by the pension funds. In return for the monies advanced to SaskPen, the pension funds were to receive as consideration for their investment, common shares and fully participating 3% bonds, issued by SaskPen.

13.02 I am of the opinion that the provisions of the governing authorities for these pension funds would not have permitted the pension funds to directly purchase these properties.

13.03 Since I am of the opinion that the pension funds would not be permitted to purchase these properties directly, and since this investment had been made in shares and bonds of a company whose only assets were the same properties which would not be permitted as a direct purchase by the pension funds, I recommended that if this type of investment was to be allowed, the statutory authorities for the investment of pension funds be amended to specifically permit such investment.

13.04 I also reported that my legal counsel informed me that if the trustee's obligation has not been adhered to for whatever reason the trustee may be liable to his beneficiaries for any loss which occurs as a result.

13.05 The Standing Committee on Public Accounts heard testimony from officials of the Department of Finance on this matter at two public hearings on May 9, 1985 and on June 5, 1985 and recommended the following action in their report to the Legislative Assembly:

> *"The Committee recommends adopting the proposals of the Provincial Auditor with respect to SaskPen Properties Ltd."*

13.06 In December, 1986, the capitalization and agreements governing SaskPen Properties Ltd. were changed to reflect a decision to make SaskPen Properties Ltd. a real estate corporation within the meaning of the Pension Benefits Standards Regulations (Canada).

13.07 I have reviewed the revised agreements and changes in capitalization and obtained my solicitor's opinion on this matter.

13.08 I am satisfied that officials of the Company have taken the appropriate measures to make SaskPen Properties Ltd. a real estate corporation within the meaning of the Pension Benefits Standards Regulations (Canada).

13.09 Accordingly, I report that I no longer have a concern with respect to the authority of the various pension plans to investment in SaskPen Properties Ltd. provided that the various pension plans do not invest beyond the permitted amounts provided in the Pension Benefits Standards Regulations (Canada).

13.10 I do continue to have a concern with the various pension plans investing in real estate through investment vehicles, such as Pension Fund Realty Ltd., if the various pension plans would not be permitted to directly purchase the underlying property securing the investment.

13.11 The majority of SaskPen's business is operated through joint ventures. Accordingly, the amount of revenue earned and expenditure incurred by the Corporation depends to a significant degree on whether or not the Construction Manager and the Property Manager operate in compliance with the Co-ownership Management Agreements which contain detailed and complex provisions dealing with the measurement of revenues and expenditures.

13.12 To date, the only audit of the co-ownership agreements has been an audit for the expression of an opinion on the financial statements of the joint ventures in accordance with generally accepted auditing standards resulting in an audit report on the financial statements. No compliance audit has been conducted by the auditor resulting in a report by the auditor on compliance with the co-ownership management agreements.

13.13 An audit to report on financial statements does not provide assurance that the provisions of the Agreements have been complied with by the Construction and Property Managers.

13.14 In my opinion, the lack of an independent audit of the joint venture accounts and records for the purpose of expressing an opinion on compliance with the terms of the Management Agreements or other appropriate procedures to ensure that agreements have been complied with, indicates that the system of management controls is not adequate to ensure that (1) public money is safeguarded, (2) that all public money has been fully accounted for, and (3) all expenditures are properly supported and authorized.

13.15 This matter was also reported in my 1985 annual report.

SPECIAL WARRANTS

13.16 The money necessary to operate the government is provided annually through Appropriation Acts. This money is provided after estimates are debated and voted by the Legislative Assembly.

13.17 The Legislature, by The Department of Finance Act, 1983, allows the government to spend money without an Appropriation Act by means of a special warrant. However, the Legislature has restricted this form of spending to expenditures not foreseen or provided for or insufficiently provided for, when the Legislative Assembly is not in session. The government is required to include special warrants as part of the next ensuing Appropriation Act.

13.18 As a further control over special warrants, the Provincial Auditor is required to report to the Legislative Assembly any special warrant which authorized the payment of public money.

13.19 I report that no expenditure was made under the authority of a special warrant in the 1986 fiscal year which was not included in the next ensuing Appropriation Act.

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14

DEPARTMENT OF HEALTH

UNIVERSITY HOSPITAL APPROPRIATION

14.00 My representatives observed an instance where an appropriation was applied in a manner not authorized by the Legislature.

14.01 The 1985-86 expenditure estimates for the Department of Health includes as Vote 62 subvote 6 an amount of $1.5 million as a grant to the University Hospital - Capital. During the year under review an amount of $1 million was paid to the Hospital from subvote 6 rather than the amount appropriated for the purpose. The balance of the funds in the appropriation were transferred by virement to other appropriations and used for that purpose.

14.02 Section 9 of The University Hospital Act reads:

> *"For the purpose of making provision for the maintenance and support of The University Hospital and the expenses of the board, there shall be paid annually to the board, out of the Consolidated Fund, such sums as may be appropriated by the Legislature for that purpose."*

14.03 Officials of the Department of Health have commented on this observation as follows:

> *"It is our opinion that Section 9 of The University Hospital Act refers to operating and maintenance expenses of the hospital whereas the Department of Health Vote 62 Subvote 6 is a grant to University Hospital for capital purposes. Grants to University Hospital for operating and maintenance expenses are provided in Department of Health Vote 32 Subvote 29 and are paid from the Saskatchewan Hospitalization Fund. The grant to University Hospital from Subvote 62-9 is made under the authority of Section 54 of The Hospital Services Act.*

It is also our opinion that Section 32 of The Department of Finance Act gives the Minister of Finance the authority to transfer unexpended funds from one subvote to another subvote in the same vote without the additional sanction of the Legislature. Such approval was given by the Minister of Finance wherein $500,000 was transferred from Vote 62 Subvote 6 and is therefore not available to University Hospital."

14.04 In my opinion, Section 9 of The University Hospital Act makes no distinction as to the specific appropriation that must be paid to the University Hospital. It clearly states that all money that is appropriated for maintenance, support and expenses of the Board shall be paid to the Board.

14.05 I am also of the opinion that the Minister of Finance did not have authority to transfer the unexpended $.5 million from this appropriation for the University Hospital to another appropriation as the Minister's authority pursuant to the The Department of Finance Act is limited to transferring money which is not committed.

14.06 It is my opinion that the wording of Section 9 of The University Hospital Act specifically commits all money appropriated by the Legislature for the University Hospital to that purpose.

FRANK ELIASON CENTRE

14.07 An important element in a system of management controls are procedures to safeguard the assets of an organization. In order to safeguard and control the assets of an organization it is necessary to have a record of the assets for which an organization is responsible.

14.08 Officials of the Frank Eliason Centre did not maintain an appropriate record of the fixed assets of the Centre. This deficiency in procedures could result in assets being removed from service without management's knowledge.

14.09 In addition to the foregoing deficiency in the management control systems for the Centre my representatives also observed that officials of the Department of Health had entered into a contract for the administration of the Centre that was not appropriately authorized.

14.10 Section 36 of The Housing and Special-care Homes Act provides as follows:

> *"Subject to the approval of the Lieutenant Governor in Council, the minister, or such other member of the Executive Council as the Lieutenant Governor may designate, representing Her Majesty in right of Saskatchewan, may enter into any agreement with the Government of Canada or a municipality, corporation or other organization, and may do any act or thing that is deemed necessary to carry out effectively a special-care home project or a housing project or that is required or contemplated by this Act or the National Housing Act (Canada) or any other Act of the Parliament of Canada, or the regulations thereunder, relating to special-care home projects or housing projects and for which no other provision is made in this Act."*

14.11 Officials of the Department of Health did not obtain the approval of the Lieutenant Governor in Council for an agreement dated May 22, 1985 entered into between the Province of Saskatchewan and Crownx Inc. to provide certain administrative services to the Frank Eliason Centre. Accordingly, payments to Crownx Inc. of $128,400 for services provided under the above mentioned agreement are, in my opinion, without authority.

SASKATCHEWAN ALCOHOLISM AND DRUG ABUSE COMMISSION

14.12 In keeping with the concept that a Crown agency should not collect money other than that which is sanctioned by law, I report as follows:

14.13 Subsection 8(2)(f) of The Alcohol and Drug Abuse Commission Act reads:

> *"In furtherance of its aims and objectives, the Commission may:...*
>
> *(f) with the approval of the Lieutenant Governor in Council, establish a schedule of fees that may be charged by the Commission for services provided by the Commission pursuant to this Act."*

14.14 During the year under review, the Commission collected a total of $12,134 for treating out of province patients

at $70 per day. However, the Commission had not received the approval of the Lieutenant Governor in Council as required by the aforementioned subsection.

14.15 Therefore, the total sum of $12,134 has been collected without appropriate authority.

SASKATCHEWAN HOSPITALIZATION FUND

14.16 Officials of the Department of Health administer the Saskatchewan Hospitalization Fund.

14.17 During the examination of the records of the Saskatchewan Hospitalization Fund my representatives observed that the bank account for the Fund was on occasion in an overdraft position. On one occasion the overdraft was approximately $1.6 million.

14.18 Section 41 of The Department of Finance Act, 1983 states:

> *"Notwithstanding the provisions of any other Act, no department, board, commission or agent of the Government of Saskatchewan and no Crown corporation shall borrow any monies without the approval of the minister."*

14.19 My representatives were not provided with evidence that the Minister of Finance had authorized this borrowing.

14.20 Further, my representatives observed that a payment was made to the bank for interest on these overdrafts. These payments for interest also do not have appropriate authority.

SASKATCHEWAN MEDICAL CARE INSURANCE COMMISSION

14.21 The Saskatchewan Medical Care Insurance Commission administers The Saskatchewan Medical Care Insurance Act.

14.22 The Saskatchewan Medical Care Insurance Act established the Saskatchewan Medical Care Insurance Fund. The Fund is used to pay for insured services under the Act.

14.23 An important element of an appropriate system of management controls is the written communication of any delegation of authority and a procedure to ensure that all transactions are within the delegation.

14.24 My representatives observed that the procedures were not sufficient to ensure that only authorized transactions were processed.

14.25 The Commission pays for medical services based on claims received from medical professionals and from beneficiaries. These claims are subjected to a series of tests by the computer to determine the validity of the claim data. Any claims rejected by the computer are then subjected to manual review and if determined to be valid, are resubmitted into the computer system. In appropriate cases the manually reviewed claims are specially coded (force-coded), in order to bypass some of the computer tests. However, there is no documented evidence of independent review of these force-coded claims to ensure that only appropriate force-coded claims are processed. In the absence of proper documentation of this control procedure, payments made for claims which are not valid may not be detected on a timely basis.

14.26 The Commission utilizes the services of Saskatchewan Computer Utility Corporation (SaskComp) for data processing. The Commission has the responsibility to ensure that the computer operating system and processing environment is administered in such a manner as to achieve proper integrity over the processing operations done for the Commission, and to maintain security over Commission programs and data files in accordance with policies and standards laid down by the Commission.

14.27 In order to discharge this responsibility, officials of the Commission must ensure their data files and programs are protected from unauthorized access.

14.28 My representatives observed there was an absence of control procedures to ensure that only authorized persons had access to the Commission's records and programs.

14.29 Officials of the Commission have acquired the use of a security software package offered by SaskComp to control access to data files and programs. If this security software package is implemented appropriately it provides many of the necessary controls to control access to the Commission's programs and data files.

14.30 Officials of the Commission have not appropriately implemented the security software package so as to ensure that only appropriate personnel have access to appropriate data and program files.

14.31 In addition to the foregoing management control deficiencies my representatives observed the following matters relating to non-compliance with authorities.

14.32 Subsection 32(4) of The Saskatchewan Medical Care Insurance Act states:

> *"(4) At the end of each fiscal year, any amount in the fund in excess of the amount required to make the payments from the fund for that fiscal year shall be paid to the consolidated fund."*

14.33 As at March 31, 1986 the Commission had a balance in the Fund which was not subsequently transferred into the consolidated fund pursuant to subsection 32(4).

14.34 The amount in question was a surplus of $361,829 representing an underspending of the amount appropriated by the Legislature for administration. The Commission also had paid $308,035 more than the money appropriated by the Legislature for insured services. The net result is a surplus of $53,794.

14.35 Further, The Saskatchewan Medical Care Insurance Act only permits payments for insured services and administration expenses to be made from the Saskatchewan Medical Care Insurance Fund.

14.36 Payments totalling $33,697 were made out of the Fund to beneficiaries for opthalmological services. These payments were for neither insured services nor administration.

14.37 Officials of the Commission have responded as follows:

> *"The Minister directed M.C.I.C. to make these payments from Administration Grant by his authority under S.22(c)(ii) and 54(c) of The Health Services Act. We believe that we had responded correctly to this directive."*

14.38 The Minister of Health has the authority pursuant to the above noted statute to direct payment. This authority to direct payment is, however, limited to the availability of an appropriation from which to make the payment. The Saskatchewan Medical Care Insurance Act does not permit these payments from the Fund.

14.39 Section 41 of The Department of Finance Act, 1983 states:

> *"Notwithstanding the provisions of any other Act, no department, board, commission or agent of the Government of Saskatchewan and no Crown Corporation shall borrow any moneys without the approval of the Minister."*

14.40 It was noted that the Commission's bank account was overdrawn several times during the year and at one point reached a maximum of approximately $2.4 million. Since the Commission does not have any evidence of approval by the Minister of Finance such overdrafts represent unauthorized borrowing.

SASKATCHEWAN PRESCRIPTION DRUG FUND

14.41 Officials of the Department of Health administer the Saskatchewan Prescription Drug Fund.

14.42 This fund is used to pay for drugs which are insured under the program.

14.43 My representatives observed that the bank account was in a number of occasions overdrawn. The largest overdraft noted was approximately $.75 million on March 13, 1986.

14.44 Section 41 of The Department of Finance Act, 1983 states:

> *"Notwithstanding the provisions of any other Act, no department, board, commission or agent of the Government of Saskatchewan and no Crown corporation shall borrow any moneys without the approval of the minister."*

14.45 No evidence of authorization of this debt was provided by management.

SASKATOON SANATORIUM

14.46 An important element in a system of management controls are procedures to safeguard the assets of an organization. In order to safeguard and control the assets of an organization it is necessary to have a record of the assets for which an organization is responsible.

14.47 Officials of the Sanatorium did not maintain an appropriate record of the fixed assets of the Sanatorium.

14.48 This deficiency in control procedures could result in assets being removed from service without management's knowledge.

14.49 In addition to the foregoing deficiency in the management control system my representatives also observed that officials of the Department of Health had entered into a contract for the administration of the Sanatorium that was not appropriately authorized.

14.50 Section 36 of The Housing and Special-care Homes Act provides as follows:

> *"Subject to the approval of the Lieutenant Governor in Council, the minister, or such other member of the Executive Council as the Lieutenant Governor may designate, representing Her Majesty in right of Saskatchewan, may enter into any agreement with the Government of Canada or a municipality, corporation or other organization, and may do any act or thing that is deemed necessary to carry out effectively a special-care home project or a housing project or that is required or contemplated by this Act or the National Housing Act (Canada) or any other Act of the Parliament of Canada, or the regulations thereunder, relating to special-care home projects or housing projects and for which no other provision is made in this Act."*

14.51 Officials of the Department of Health did not obtain the approval of the Lieutenant Governor in Council for an agreement dated May 22, 1985 entered into between the Province of Saskatchewan and Crownx Inc. to provide certain administrative services to the Saskatoon Sanatorium. Accordingly, payments to Crownx Inc. of $89,604 for services provided under the above mentioned agreement are, in my opinion, without authority.

SOURIS VALLEY REGIONAL CARE CENTRE

14.52 When an organization uses a computer service bureau to process computer transactions, it is important that procedures are in place to ensure the following objectives are met:

i) All data processed is complete, accurate and authorized.

ii) The system is protected from accidental or malicious manipulation, disclosure or destruction by unauthorized persons.

iii) Adequate procedures are established and tested to give assurance that continuous operations can be recovered in a reasonable time frame in the event of interruption of service.

iv) The in-house computer operations remain compatible with the facilities available at the service bureau.

14.53 One means of achieving the above objectives is a formal contract that covers the facilities and services provided, the obligations and responsibilities of each party, as well as an agreement on the rates and conditions for the services provided. In addition, the contract should require the service bureau to provide annual assurance of the controls established to prevent unauthorized changes to program and data files, and should provide that sufficient back-up and disaster planning provisions have been introduced to ensure continuous service, or a timely return to normal service, should a disaster occur. Such a contract reduces the risk of misunderstanding arising over the obligations of each party.

14.54 The contract that the Centre has with the service bureau does not specifically address the facilities and services provided, the obligations and responsibilities of each party, as well as an agreement on rates and conditions for service. In addition, there is no requirement for the service bureau to provide the Centre with assurance of security controls such as password protection, communication security and a back-up plan where service is interrupted.

14.55 The above weaknesses allow the possibility of unauthorized changes being made to the computer programs and data. In addition, it is possible that controls established at the Care Centre may not be effective in ensuring all transactions are properly processed.

WASCANA REHABILITATION CENTRE

14.56 A system of management controls for the receipt, deposit and control of monies includes accounting and organizational controls to ensure that transactions are promptly

and accurately recorded and that monies received are adequately safeguarded. Also, such a system should include segregation of duties to ensure that no one person is in complete control of a transaction, provide for periodic balancing and reconciling routines to ensure the accuracy and reliability of the accounting records and to facilitate the safeguarding of assets.

14.57 During the period under examination these accounting and organizational controls were not sufficient in the following areas:

i) The opening of mail is under the control of one person.

ii) Cheques received are not restrictively endorsed immediately upon receipt.

iii) There is no reconciliation between the amount of receipts and the amount deposited.

iv) Receipts were not always entered in the cash mail record.

v) Revenue is not always deposited promptly on receipt.

14.58 As a result of the absence of adequate controls in these areas the risk is increased that monies received could be misappropriated, without detection, on a timely basis.

14.59 In addition, to the foregoing deficiency in the management control systems, at August 4, 1986 the March 31, 1985 financial statements for the Centre had not been tabled in the Legislative Assembly.

14.60 Section 88(3) and (4) of The Public Health Act states as follows:

"(3) A board shall, in accordance with The Tabling of Documents Act, prepare and submit to the minister:

a) a report upon its business for the immediately preceding fiscal year; and

b) a financial statement showing the business of the board for such fiscal year.

(4) The minister shall, in accordance with The Tabling of Documents Act, lay before the Legislative Assembly each report and statement received by him pursuant to subsection (3)."

14.61 I am advised that the Chairman of the Board forwarded to the Minister on February 25, 1986 a copy of the annual report of the Board for the year ended March 31, 1985 including financial statements and my auditor's report.

14.62 In my opinion, therefore, Section 88(4) of The Public Health Act was not complied with in respect of the tabling of the annual report of the Wascana Rehabilitation Centre Board.

14.63 An annual report for the year ended March 31, 1985 was tabled in the Legislative Assembly on December 23, 1986.

DEPARTMENT OF JUSTICE

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DEPARTMENT OF JUSTICE

LOCAL REGISTRARS', LAND TITLES' AND SHERIFFS' OFFICES

15.00 An important element in any system of management controls is careful supervision by management. In larger organizations, no one manager can have direct personal knowledge of every facet of the organization. Supervisory responsibilities therefore are delegated throughout the organization. It is important, however, to retain the involvement of senior management at key spots within the management control system to detect breakdowns in the system. Where senior management is not able to personally exercise this control, for reasons such as decentralization in larger organizations, it is usual to have an internal audit function. This internal audit function reviews and tests the management control systems throughout the organization to ensure compliance with senior management's prescribed procedures and reports its findings to senior management for appropriate action.

15.01 A major portion of the revenue of the Department is collected through Land Titles', Local Registrars' and Sheriffs' offices. The revenue collected by these offices totalled approximately $14.6 million in the 1985/86 year.

15.02 During the course of the examination it was observed that management had not established a system to monitor compliance with its prescribed procedures for the collection, recording and deposit of moneys for services provided. This weakness allows the possibility of: (i) services being provided without collection of moneys due to the Department, (ii) errors occurring either in calculation of moneys due the Department or in the recording of moneys received, and (iii) the misappropriation of moneys received, without detection on a timely basis.

15.03 This matter was also reported in my 1985 and 1984 annual reports.

15.04 My representatives conducted additional audit procedures to discover whether the weakness in procedures had resulted in any cases of errors or fraud. The audit procedures

were not designed to discover all cases of errors or fraud and, accordingly, the following reported errors should not be considered to represent all cases of errors or fraud but rather are presented to provide examples of the types of errors that were discovered:

15.05 Officials of the Department are responsible to maintain a record of the money paid into court and the disposition of that money.

15.06 My representatives observed the following deficiencies in records maintained for this trustee function.

15.07 My representatives observed three instances involving in aggregate approximately $300,000 where money had been paid into the court at a local office but had not been reported to the division of the Department which monitors local office court services. Also, in two of these cases, the money received was not recorded in the trust ledger maintained at the local office.

15.08 If appropriate procedures are not monitored to ensure that there is a correct initial recording in the records of the Department of all trust money received, the risk of misappropriation of assets without detection is increased.

15.09 The local offices of the Department are responsible for collecting fees for services, reporting the collection of fees and remittance of the fees to the Department's headquarters.

15.10 My representatives observed three instances where in aggregate approximately $30,000 of fee revenue collected was not correctly reported or forwarded to the Department's headquarters.

15.11 If appropriate procedures are not monitored, the risk of errors or fraud is increased.

PUBLIC TRUSTEE

15.12 The study of the management control systems of the Public Trustee disclosed an absence of control procedures to control disbursements from the bank.

15.13 Essential to any system of management controls is a segregation of incompatible duties sufficient to ensure that no one individual has both the ability to perpetrate and conceal any fraud or misappropriation. In the case of liquid assets such as

cash, the standards of control to prevent fraud or misappropriation must be high because any loss of such liquid assets, even if detected at a later date, may not be recovered.

15.14 As at March 31, 1986, my representatives observed the following lack of segregation of duties over cash disbursements:

15.15 The employee involved in the preparation of bank reconciliations, entry of payment vouchers into the computerized financial records and maintenance of the computerized outstanding cheque record was also in a position to access blank cheques and use the cheque signing machine without a second person present.

15.16 The possible consequence of this weakness is an increased risk of unauthorized payments which would not be detected on a timely basis.

OTHER MATTERS

15.17 In addition to the deficiencies in the management control systems of the Department, my representatives made the following observations:

15.18 The Department entered into an agreement dated May 20, 1979 with the Saskatchewan Association of Friendship Centres to provide a Native Courtworker Program in the province. The Agreement calls for the Department to reimburse the Association for those costs which are incurred by the Association in operation of the program within the terms of Section 4(c) of the agreement which provides as follows:

> *"On the basis of the approved budget and the approved grant level, the Department shall make four equal payments to the Association on April 1, July 1, October 1, and January 1 in any financial year provided that the subsequent monthly statements from the Association and the financial reports support that level of payment...."*

15.19 Further, Section 2 of the Agreement provides in part as follows:

"The Association agrees:

d) to forward to the Department at the end of each month a statement of expenditures in the court worker program for that month in the form to be specified by the Department.

f) to return to the Department any surplus funds remaining at the end of each financial year."

15.20 During the examination, it was observed that for the fiscal year ending March 31, 1985 the Department provided a grant of $836,140 to the Saskatchewan Association of Friendship Centres for reimbursement of costs incurred in operation of the Native Courtworker Program, while actual costs incurred were $780,442 leaving a surplus of $55,698. This surplus was not recovered as at March 31, 1986 as required by the agreement.

15.21 The Department of Justice Act in Section 13(1) provides authorization for the minister to make grants not in excess of $10,000 on any terms or conditions that he may prescribe. During the examination, it was observed that the following grants were made without evidence of the approval of the Minister of Justice:

	Grant Amount
Canadian Association of Chiefs of Police	$5,000
Public Legal Education Association	5,000
Uniform Law Conference of Canada	4,000
Canadian Association of Provincial Judges	3,000
Canadian Criminal Justice Association	2,500

15.22 Officials of the Department maintain a trust account captioned Local Registrar - Regina Court of Queen's Bench, Special Account. This account is used to receive money paid into court and is later disbursed in accordance with the court's direction.

15.23 If through error, officials pay out more than is received, then that money either has to be recovered from the person who received the money or recovered from an appropriation.

15.24 If the overpayment is not recovered, then the overpayment is financed by other persons' trust money.

15.25 In my 1984 annual report, I reported that due to errors, $3,900 had been paid out of the Local Registrar - Regina Court of Queen's Bench, Special Account in excess of what had been received for distribution.

15.26 I reported this matter to the Department in 1985 and recommended that appropriate action should be taken to recover this money so that the trust money of other individuals is not used to finance the overpayments.

15.27 I report that while some of the overpayment has been recovered from the persons who were overpaid, approximately $3,200 in overpayments is still not recovered at March 31, 1986.

DEPARTMENT OF LABOUR

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DEPARTMENT OF LABOUR

EXPENDITURE

16.00 Each government agency has a responsibility to ensure that its expenditures are authorized by management in accordance with relevant legislation. In order to adequately discharge this responsibility each agency must have in place a system of controls sufficient to satisfy management that this responsibility is complied with.

16.01 The Comptroller, Department of Revenue and Financial Services, makes payments which are charged to the appropriation for the Department of Labour.

16.02 The Comptroller makes these payments based upon payment vouchers which have been duly authorized by officials of the Department of Labour and with regard to payroll, by officials of the Department of Revenue and Financial Services.

16.03 The Comptroller subsequently produces a report for officials of the Department detailing the payments which were charged to the appropriations for the Department.

16.04 Officials of the Department do not have a control procedure to establish the accuracy and authority for the charges to the appropriations for the Department of Labour.

16.05 The consequence of this weakness is that the Department of Labour may incur commitments in excess of the amounts appropriated, or fail to detect incorrect, incomplete or unauthorized charges made against the appropriations for the Department.

REVENUE

16.06 Each government agency is responsible to collect revenues within the requirements of the governing statutes.

16.07 Officials of the Department did not have procedures in place to ensure revenue collections were in compliance with these statutes.

16.08 My representatives observed the following instances of lack of compliance with these statutes regarding revenue collections:

16.09 Section 5 of The Department of Labour Act states:

> *"5(1) The minister shall, on or before the thirtieth day of June in each year, advise the Workers' Compensation Board of the estimated cost for the then current calendar year of the administration by the department of the industrial safety program under The Occupational Health and Safety Act.*
>
> *(2) The Workers' Compensation Board shall, upon being advised of the estimated cost for the then current calendar year of the administration by the department of the industrial safety program, pay into the consolidated fund, in respect of such administration costs for that calendar year, on or before the thirty-first day of January of the year next following such sum, not exceeding the actual costs of the administration of the program for that calendar year, as the Lieutenant Governor in Council may direct."*

16.10 Management of the Department has informed my representatives that the following amounts had been collected from the Workers' Compensation Board during the year ended March 31, 1986:

i)	Worker's Compensation Act Review Committee	$ 47,010
ii)	Worker's Advocate Expense Recovery	195,839
iii)	Cost of Industrial Safety Program (Occupational Health and Safety)	1,818,691
	Total collected	$2,061,540

16.11 Management has not provided my representatives with a copy of the authorizing Order-in-Council for the Industrial Safety Program revenue. Also, there appears to be no specific legislative authority for the collection of other revenue from the Worker's Compensation Board.

16.12 Accordingly, it appears that the entire amount of $2,061,540 was collected without proper authority. Furthermore, the actual costs for the 1985 calendar year were not all received prior to January 31, 1986 as required by the above legislation. Approximately $472,437 was not received by January 31, 1986.

16.13 The Department of Labour collected revenue for the inspection of a variety of equipment. The fees charged for these inspections are specified in various regulations.

16.14 Pursuant to The Federal-Provincial Agreements Act, the Department of Labour entered into a contract with the federal government for inspection of facilities under federal jurisdiction. The agreement specified a fee to be charged to the Government of Canada of the amount specified in the applicable regulations plus a surcharge of 200%.

16.15 The agreement reads in part:

> *"9. Duration*
>
> *Subject to paragraphs 10, 11, and 12 this Agreement shall come into effect on the 1st day of April, 1982 and shall continue in effect until the 31st day of March, 1985.*
>
> .....
>
> *11. This Agreement may, at the option of Canada, be renewed for a period not exceeding 5 years beyond the expiry date stated in paragraph 9, upon Canada giving notice in writing to Saskatchewan not less than 6 months before the said expiry date."*

16.16 Management of the Department has informed my representatives that the inspections performed for the Federal Government have been continued past the March 31, 1985 expiry date on a verbal basis and that $41,589 has been collected for the year ended March 31, 1986. The surcharge collected was

200% to September 30, 1985 and 125% thereafter based upon rates reached in a verbal understanding with officials of the Federal Government.

16.17 Since the Lieutenant Governor in Council has not approved changes to the surcharge of 200% and because no written agreement has yet been signed with the Federal Government, there appears to be no authority to support the amount of $41,589 collected from the Federal Government after March 31, 1985.

16.18 Section 22 of The Fire Prevention Act which is administered by the Department of Labour states:

> *"22(1) As a contribution to the cost of the fire prevention services provided for in this Act, every company, whether stock or mutual, licensed or not, transacting the business of fire insurance within the meaning of The Saskatchewan Insurance Act shall pay to the Minister of Revenue and Financial Services a fee equivalent to 1% of its premium receipts and assessments, less return premiums and cancellations, calculated on the property insurance reported to the Superintendent of Insurance during the preceding year, including premiums covering fire risks only on automobiles.*
>
> *(4) Any moneys paid pursuant to subsection (1) are to be deposited in the consolidated fund and dedicated to paying the expenses incidental to the administration of this Act and the Regulations."*

16.19 Management of the Department has informed my representatives that expenses incidental to the administration of the act are borne by the Department of Labour's appropriation, but that revenue collected under the act is collected by the Department of Revenue and Financial Services and paid to the Consolidated Fund as revenue of that Department.

16.20 As revenue is received and costs borne by different Departments, and money received is not set aside within the Consolidated Fund, the requirement of the Act that revenue be "dedicated to" the expenses under the act does not appear to be satisfied.

DATA SECURITY

16.21 The Department utilizes the services of Saskatchewan Computer Utility Corporation (SaskComp) for data processing. The Department has the responsibility to ensure that the computer operating system and processing environment is administered in such a manner as to achieve proper integrity over the processing operations done for the Department, and to maintain security over Departmental programs and data files in accordance with policies and standards laid down by the Department.

16.22 In order to discharge this responsibility, officials of the Department must ensure their data files and programs are protected from unauthorized access.

16.23 Officials of the Department have acquired the use of a security software package offered by SaskComp to control access to data files and programs. This security software package provides many of the necessary controls for this purpose.

16.24 Officials of the Department have not appropriately implemented this security software package so as to ensure that only appropriate personnel have access to appropriate data and program files.

16.25 This weakness allows the possibility that the security of Departmental data files and programs may be compromised.

PAYMENT NOT PROPERLY VOUCHED

16.26 In addition to the foregoing deficiencies in the management control systems for the Department, my representatives made the following observations:

16.27 The Department of Labour entered into a contract with a consultant to undertake a review of the operation of the Department.

16.28 The contract reads in part:

> *"2.2 The Department agrees subject to the necessary appropriation being made by the legislature, to pay to the Consultant the cost of conducting the Study, including all fees and services, and actual and reasonable travel, sustenance and administrative overhead expenses, to a maximum of $57,100.*

2.3 The Study will not exceed the total cost as indicated in 2.2. This cost is to cover all fees and services, including actual and reasonable travel, sustenance and administrative overhead expenses to be rendered by the Consultant pursuant to this Agreement.

2.4 The fees and expenses payable to the Consultant will be paid on a monthly progress basis upon invoices prepared and submitted by the Consultant and approved by the Department Administrator. Approved invoices will be paid by the Department Administrator within 30 days after receipt of the invoice by the Department. The final 20 percent of the fee payable to the Consultant shall not be payable until 30 days after the Consultant has submitted to the Department its final report relating to the study and the report has been accepted, as signified in writing by the Department Administrator, such acceptance not to be unreasonably withheld."

16.29 The Department paid a total of $57,100 for the study as specified in the contract, including a final payment of $18,050 made in March, 1985.

16.30 Management of the Department has been unable to provide my representatives with a copy of the written acceptance of the final report as required by Section 2.4 of the Agreement.

16.31 Furthermore, the final report which management provided my representatives is dated "April, 1985".

16.32 Thus, it appears that the final 20% payment to the Consultant was paid in violation of the terms of the Agreement and accordingly was not properly vouchered or certified.

DEPARTMENT OF PARKS AND RENEWABLE RESOURCES

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DEPARTMENT OF PARKS AND RENEWABLE RESOURCES

FISH ENHANCEMENT PROGRAM

17.00 Officials of the Department of Parks and Renewable Resources administer the Resource Protection and Development Revolving Fund.

17.01 The programs which may be financed through the Resource Protection and Development Revolving Fund are determined by Treasury Board.

17.02 Treasury Board has directed that it must approve any major changes to the nature or operations of a Revolving Fund.

17.03 During 1985/86, a Fish Enhancement Program was financed through this Revolving Fund. The revenues and expenditures for this program were approximately $57,000.

17.04 Treasury Board approval to operate this program through the Revolving Fund was not obtained.

FORESTRY REVENUE

17.05 In addition to the foregoing, my representatives made the following observations regarding forestry revenue.

17.06 Saskatchewan Regulation 240/67, issued under The Forest Act, lists dues, fees and rentals charged under the forest regulations. Section 91 of these regulations states that "the Minister may fix any rentals, lease fees, permit and licence fees and timber dues which have not been provided for in these regulations."

17.07 During the course of the examination, my representatives observed that the rate charged for wood chips was not listed in Saskatchewan Regulation 240/67 or any subsequent regulations. Management of the Department was unable to provide written documentation of the Minister fixing the rate charged for wood chips. Therefore, in my opinion, the assessment and collection of this revenue was not authorized.

17.08 Fees are levied for pulpwood cut and removed from licensed lands in accordance with a management licence issued to Prince Albert Pulp Company Ltd. under Order-in-Council 449/66. Fees for pulpwood cut and removed from lands outside the company lease area are subject to the Part VIII Schedule of dues, fees and rentals or to Section 22 of Part III of the Saskatchewan Regulation 240/67 issued under The Forest Act. Section 22 states:

> *"In cases where burned timber, dead timber, down timber or diseased timber should be removed for the protection of the forest, permits may be issued for the removal of such timber at reduced rates of dues to be authorized by the Director."*

17.09 During the course of the examination, my representative noted that the fees levied for certain species of pulpwood were not in accordance with either the above mentioned management licence or schedule. Also, management of the Department was unable to provide written authorization of rates of dues levied by the Director as required by Section 22 of the above regulations. In my opinion, the Department assessed and collected unauthorized revenue.

DEPARTMENT OF REVENUE AND FINANCIAL SERVICES

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DEPARTMENT OF REVENUE AND FINANCIAL SERVICES

EDUCATION AND HEALTH TAX

18.00 During the examination of the Department's accounting records and the related systems of internal control my representatives observed that officials of the Department had still not complied with the 1980 recommendation of the Standing Committee on Public Accounts that the procedures used in the Department be reviewed to ensure that there is a balance between the number of detailed field audits on the one hand and the costs of the audits on the other hand so that an effective check on the assessment of taxes is in place.

18.01 I was advised by management of the Department at the date of the audit that the Department has started to address the issue to ensure that there is a balance between the number of audits on the one hand and the costs of the audits on the other hand so that an effective check on the assessment of Education and Health Tax revenue is in place. The Department contracted the services of two consultants to assess and recommend a course of action. As a result, the Department informed me that a system of random sampling was implemented in 1986-87 and the Department is currently evaluating the results.

COMPTROLLER

18.02 A review and evaluation of the management control systems established by the Comptroller to discharge his responsibilities disclosed the following conditions which, in my opinion, resulted in more than a relatively low risk that errors or fraud in amounts that would be material may occur and not be detected within a timely period.

18.03 An important element in any system of internal control is careful supervision by management. Since, in larger organizations, no one manager can have direct personal knowledge of every facet of the organization's activities, an important aspect of management supervision is the monitoring of the continuing effectiveness of all other controls in the organization.

18.04 Section 25 of the Department of Revenue and Financial Services Act describes the duties of the Comptroller and provides in part as follows:

> *"(i) the comptroller shall:*
>
> *(a) supervise the receipt, recording and proper disposition of public money;"*

18.05 The Comptroller's interpretation of this responsibility was communicated to me as follows:

> *" establish standards,*
> *monitor and evaluate, where necessary, provide direction or suggestions for improvement in the process,*
> *may provide assistance to affect changes as identified,*
>
> *for all receipts of funds that are under the direct supervision of Treasury Board except that discretion can be applied where a proper management structure exists within an entity that will ensure the process is adequate."*

18.06 During the examination, it was observed that the Comptroller has not documented those systems and procedures established to monitor and evaluate all receipts under the direct supervision of Treasury Board. Consequently, I was unable to determine whether the Comptroller has established systems and procedures sufficient to supervise the receipt, recording and proper disposition of public money.

18.07 For example, the Comptroller's Division, prior to each fiscal year end, issues an accounting bulletin to departments and agencies which establishes the cut-off dates for transaction processing and the procedures to be employed in the fiscal year end process to achieve an accurate cut-off for financial reporting in accordance with the established accounting policy. During the examination, it was observed that the Comptroller's Division, with respect to revenue, had not established a system to monitor department and agency compliance with this bulletin.

18.08 This weakness allows the possibility that revenue recording errors may occur without detection on a timely basis.

18.09 A new system for revenues and expenditures of the Consolidated Fund and other special purpose funds was implemented by the Comptroller on April 1, 1985.

18.10 My representatives made the following observations regarding this new system:

18.11 With computerized systems, the presence of effective systems development controls is particularly important. Systems development controls are intended to ensure that:

- new systems contain all controls which are necessary and practical in the circumstances
- new systems meet the information needs of all users involved
- adequate plans are made for the conversion of records used under the old system to records required under the new system (to avoid either omissions or inadvertent duplicate recording).

18.12 The development of new systems usually requires consultation with the operating departments (who will be affected by the new procedures), with the accounting/finance sector (who will be affected by the new procedures and who will want assurance that timely reporting and appropriate accounting practices are being incorporated), and with internal auditors (who will want to satisfy themselves that effective controls are being maintained).

18.13 It was observed that user training for the Revenue and Expenditure system commenced in March, 1985. A test was not conducted with all users accessing the hardware simultaneously to see if the system was able to handle the projected capacity. When the system was implemented in April, 1985, the system was not able to handle the simultaneous processing requirements of all users. Consequently, there were system processing disruptions for approximately three months.

18.14 It was observed that the user training and testing for the Revenue and Expenditure system consisted mainly of data entry techniques, i.e. what documents need to be completed for successful processing. The departments/agencies were given minimal guidance as to the use of daily detail transaction reports and the many other monthly reports which are generated from the system. Consequently, the reports generated by the system were not being used effectively.

18.15 For example, when the new Revenue and Expenditure system was implemented, departments and agencies were provided with a "Financial Management Systems - Revenue and Expenditure Procedures Manual" to be used as a guide to the operation of the Revenue and Expenditure system. Section 5 of this Manual, with respect to expenditure, suggests that there be input/output balancing between source documents input by the departments and agencies, and the daily departmental transaction reports. The Manual also suggests a month-end reconciliation of these daily transaction reports and the monthly reports used for management control and reporting purposes. During the examination, it was observed that information provided by the daily transaction reports and the monthly reports did not facilitate a timely and effective reconciliation of the reports for input/output control purposes. Consequently, certain departments or agencies performed input/output balancing using the daily transaction reports but did not provide a reconciliation between the transaction reports and the monthly reports. This weakness allows the possibility that payment coding and recording errors may occur without detection. Other departments or agencies performed input/output balancing using the monthly reports. This weakness allows the possibility that payment coding and recording errors may occur without timely detection.

18.16 It was also observed that there is a lack of a timely and economical management/audit trail between the books of original entry (other than a computer tape storage medium) and the general ledger posting sources, since copies of books of original entry are not maintained at the Comptroller's office.

18.17 The computer generates cheques for payments to vendors. In order for a cheque to be generated for a vendor, the vendor's identification must be entered into computer files maintained by the Comptroller. Departments and agencies provide written authorization to the Comptroller to amend the computer file of vendors. There was an absence of control procedures in the Comptroller's office to ensure that only authorized officials of the various Departments had authorized changes to the vendor file. Also it was observed that several officials of the Comptroller's office were able to effect changes to the vendor file. These weaknesses allow the possibility of unauthorized changes to the vendor file which could in turn result in erroneous payments.

18.18 The importance of documentation controls is increased in the case of computer-based systems because of their complexity

and the magnitude of the investment in their design. It is critical to establish systems and programming standards, and to document them so that systems which have been designed, programmed, or documented by one person can be understood, used, or changed by some other authorized person in the organization. Systems and programming activities should be closely supervised by management to ensure adherence to the standards.

18.19 During the examination it was observed that the Comptroller's Division has not fully developed the documentation for the Revenue and Expenditure System systems and programs.

18.20 These weaknesses allow the possibility of serious processing disruption in the event of system failure and as well, further increases the risk of processing errors.

18.21 I am informed by management that a project to complete the documentation of systems and programs is currently in process.

18.22 Control techniques are required to ensure that all data processed by the computer is complete, accurate, and authorized and that output is distributed to the proper persons or departments.

18.23 During the examination, it was observed that the Revenue and Expenditure System does not provide for run-to-run balance checks with regard to the various revenue and expenditure processing phases of the system, which includes the nightly cycle consisting of initial input of data, initial transaction reports, generation of payment vouchers, generation of cheques and the monthly processing cycle which generates the month end reports used for management control and reporting purposes.

18.24 This weakness allows the possibility that data processed and the output generated by the Revenue and Expenditure System may not be complete, accurate or authorized.

18.25 Accounting records themselves represent a valuable asset requiring protection. Access to accounting records should be restricted to preserve the effectiveness of segregating custody, authorization, and recording functions. Accounting records should be carefully stored (preferrably in fireproof vaults after working hours) to minimize the chance of loss, theft, or destruction by fire. Back-up records are advisable particularly in the case of

computer files, to facilitate the reconstruction of important data, in the event of accidental loss or destruction.

18.26 In addition to preventive security measures, it is desirable for an organization to establish and document a plan of recovery procedures to enable timely recovery in situations where the preventive measures fail and accounting records or computer files, programs, or equipment are damaged or destroyed.

18.27 The destruction of critical computer files and equipment components may require substantial reconstruction of data and the use of alternative processing facilities for a temporary period. Recovery plans would cover, for example, the persons responsible for carrying out the various recovery steps, applications to be given top priority in reconstruction, alternate manual procedures to be followed during the recovery period, and detailed steps to be carried out in reconstructing files.

18.28 During the examination, it was observed that the Comptroller's Division has not documented a disaster recovery plan for the Revenue and Expenditure system. This allows the possibility that complete recovery, from major disaster or destruction to the Revenue and Expenditure system data files, programs or equipment, may be difficult. This in turn would impact the timeliness of supplier payments, public accounts preparation and the provision of management control reports to Departments/agencies.

PUBLIC EMPLOYEES BENEFITS AGENCY

18.29 The Public Employees Benefits Agency administers a number of special purpose funds.

18.30 The Public Employees' Dental, Disability Income and Group Life Funds were established pursuant to Section 31(2) of The Department of Revenue and Financial Services Act to be operated, administered and managed by the Public Employees Benefits Agency. Order-in-Council #1416/84 designates the employees, officers and members of certain Crown agencies that can participate in these Plans.

18.31 The Agency does not have any procedures in place to ensure that all contributors are eligible plan participants. As a result, premiums may be collected from, or claims may be paid to, unauthorized plan participants.

18.32 During the year under review, my representatives observed that the employees of The Saskatchewan Horse Racing Commission contributed to these Funds but were not designated as eligible by Order-in-Council #1416/84.

18.33 The remaining deficiencies in the management control systems are reported separately for each Fund.

18.34 Excess funds in the Public Employees' Dental Fund are invested in short-term investments by the Department of Finance, Investment and Financial Services Division. When an investment matures, Investment and Financial Services sends a notice of maturity to the Public Employees Benefits Agency, and a cheque for the maturity amount is sent directly to the bank for deposit. The Agency then records the maturity in its records. Shortly after month end, the bank sends the Agency the bank statement and all deposit notices for maturities, along with all paid cheques and other memos for the month. The Agency, however, does not perform a bank reconciliation immediately after month end. In addition, there was no check to ensure all investment maturities were in fact deposited.

18.35 As a result of this weakness, a bank deposit error was not detected and corrected on a timely basis. An investment of $700,000 matured on December 18, 1985, and was incorrectly deposited to the bank account of another Fund administered by the Agency. This error was not detected and corrected until February 19, 1986.

18.36 The Public Employees Benefits Agency has prepared a procedures manual for the accounting functions of the Public Employees' Disability Income Fund. Included in this manual is a section describing the year end cut-off policies and procedures to be followed to ensure the annual financial statements of the Fund are properly prepared on a timely basis. At March 31 1987, the Agency had yet to complete these procedures and prepare the December 31, 1985 annual financial statements of the Fund.

18.37 As a result of this weakness, the financial statements of the Fund have not been prepared on a sufficiently timely basis to be relevant for the purposes of accountability to the Legislative Assembly.

18.38 In my 1984 and 1985 annual reports, I reported that there was no management control system to ensure that

investments were made in accordance with the statutory provisions for the investment of surplus funds for the Disability Income and Group Life Funds.

18.39 I reported that the agreement then in place with the administering life insurance company for the investing of funds not immediately required on behalf of the Agency, did not specify that the investments are to be made only if they are in accordance with subsection 27(1) of The Department of Finance Act, 1983 nor did the Agency have any procedures in place during the year to ensure that investment purchases complied with that Act.

18.40 During the year under review, my representatives were informed that the Agency did check certain investments for compliance, but the source of information and the relevant section of the legislation that the investments complied with was not documented. As a result, my representatives were unable to obtain sufficient evidence that this control procedure was, in fact, operating effectively throughout the year. Without adequate documentation, there is no assurance that the control procedure was performed. In addition, my representatives were informed that an amendment to the agreement with the insurance company to include reference to subsection 27(1) of The Department of Finance Act, 1983, had not been finalized.

18.41 As a result of the above weakness, investments may be purchased which are not authorized by the Agency's governing legislation.

18.42 The Public Employees Benefits Agency has prepared a procedures manual for the accounting functions of the Public Employees' Group Life Insurance Fund. Included in this procedures manual is a section describing the accounting systems for premiums. One of the procedures for premiums is the timely preparation of premium ledger sheets to record the contributions received monthly from each agency that submits premium statements. These ledger sheets are to be prepared for each agency to provide a basis for ensuring all agencies contribute monthly.

18.43 During the period July to December, 1985, these premium ledger sheets were not maintained.

18.44 As a result of this weakness, premiums may not be received by the Agency without ready detection.

18.45 Further, the procedures manual mentioned above also includes a section describing the year end cut-off policies and procedures to be followed to ensure that the annual financial statements of the Fund are properly prepared on a timely basis. The Agency had not completed these procedures nor prepared the December 31, 1985 financial statements of the Fund as at March 31, 1987.

18.46 As a result of this weakness, the financial statements of the Fund have not been prepared on a sufficiently timely basis to be relevant for the purposes of accountabiiity to the Legislative Assembly.

18.47 In accordance with the provisions of Section 40 of The Public Service Superannuation Act, all funds received (paid) by the Public Service Superannuation Board are recorded as revenue (expenditures) of the Consolidated Fund of the Province. The Public Employees Benefits Agency, which administers the Funds on behalf of the Board, is responsible for ensuring that all monies received and all payments initiated are properly recorded on the reports from the Comptroller's Division of The Department of Revenue and Financial Services.

18.48 During the audit examination, it was observed that the reconciliation of the reports from the Comptroller's Division was not completed on a timely basis to ensure all receipts and payments have been properly recorded. Reconciliations for the period April 1, 1985 to November 30, 1985 were not completed until December, 1985 and for the period December 1, 1985 to March 31, 1986, were not completed until after the year end.

18.49 The lack of timely reconciliation routines allows for the possibility of errors occuring in the cash receipts and payments of the Consolidated Fund relating to the Board without timely detection.

PUBLIC EMPLOYEES SUPERANNUATION PLAN SUPERVISORY BOARD

18.50 The Public Employees Superannuation Plan Supervisory Board administers the Public Employees (Government Contributory) Superannuation Fund and the Public Employees (Government Contributory) Annuity Fund.

18.51 A complete and current policy and procedures manual does not exist which describes the duties and

responsibilities of employees, the objectives of the Board's internal control system and the steps prescribed to achieve those objectives, including accounting policies and procedures, together with benchmarks against which compliance with management's prescribed controls can be measured and direction for reporting to the Board and senior management. A procedures manual exists which was prepared several years ago, however, this manual is incomplete with respect to certain important internal control objectives and has become outdated relative to changes in staff responsibilities and to changes in the activities of the Board.

18.52 This weakness allows the possibility of the accounting system not operating as intended and employees not being aware of their duties and responsibilities. Further, it contributes to the following additional weaknesses in the system of internal control:

18.53 Monthly financial statements are prepared from the Board's accounting records. During the period under examination, it was noted that the monthly financial statements were not reviewed by management for the last nine months of the year. In addition, there was not a review and approval of the monthly financial statements by the Supervisory Board during the year.

18.54 This weakness impairs the ability of the Board and management to take corrective action for any errors or problems that might be identified in the monthly reports, with the consequence that the stewardship responsibilities assigned by statute may not be fully discharged.

18.55 During the period under examination, it was also noted that there was not a control procedure that required that journal entries be approved by a senior accountant or manager independent of preparation.

18.56 This weakness could result in incorrect journal entries being prepared causing incorrect financial statements.

18.57 The Board has no formal procedures in place to ensure that all investment income earned is received. For short-term investments, bonds and debentures and Canadian equities, there is no audit evidence of the procedures performed. For mortgages, real estate and foreign equity investments, there is no systematic check to ensure that all income earned is received.

18.58 This weakness could result in investment income being earned by the Fund, but not received or recorded. In addition, since the Board approves an interest allocation rate for plan members based on the recorded investment earnings, any errors due to the above weakness could result in this rate being incorrectly determined.

18.59 In connection with the preparation of annual financial statements, year end cut-off procedures and reconciliations were not completed in a timely manner. At March 31, 1987, I had not been provided with financial statements for the year ended March 31, 1986.

18.60 As a result, the financial statements of the Funds have not been prepared on a sufficiently timely basis to be relevant for the purposes of accountability to the Legislative Assembly.

MEMBERS OF THE LEGISLATIVE ASSEMBLY SUPERANNUATION FUND

18.61 The Members of the Legislative Assembly Superannuation Fund operates under The Members of the Legislative Assembly Superannuation Act, 1979.

18.62 The Act requires contributions from members and matching contributions to be paid into the Fund to provide allowances for superannuates.

18.63 The Fund was administered by the officers of the Public Employees Benefits Agency, Department of Revenue and Financial Services.

18.64 There were inadequate procedures in place to prepare financial statements on a timely basis which show the financial position and the results of operations of the Fund. At March 31, 1987 officials responsible for the administration of the Fund had not provided my representatives with financial statements for the year ended March 31, 1986.

18.65 If financial statements are not provided to the Members of the Legislative Assembly on a timely basis the Members of the Legislative Assembly do not have information to hold the executive government accountable for the administration of this Fund.

18.66 The pension for Members of the Legislative Assembly participating in the money purchase plan is based upon the amount of money standing to the credit of the member. The amount standing to the credit of a member is determined by the member's contributions, the matching contributions and the interest from the investment of this money.

18.67 Subsection 4(1) of the Act states:

> *"The Minister of Finance shall in each fiscal year, pay into the fund out of the consolidated fund*
>
> *(a) an amount, in respect of each member or former member equal to the contributions paid by that member or former member during the fiscal year pursuant to this Act, to be paid on receipt of such contributions."*

18.68 It was observed that matching contributions from the Minister of Finance were not collected on a timely basis.

18.69 This results in a loss of interest income to the Fund. This loss of interest income will result in less interest being allocated to individual members which will result in a lesser amount standing to the credit of an individual member.

18.70 In addition to the foregoing, my representatives observed the following transactions that did not appear to comply with the governing legislation for the operation of the Fund.

18.71 Section 26.1 of The Members of The Legislative Assembly Superannuation Act, 1979 states:

> *"Where a person who was a member and:*
>
> *(a) is entitled to or in receipt of a supplementary monthly allowance pursuant to section 25, 25.1 or 26; or*
>
> *(b) was entitled to a supplementary monthly allowance pursuant to section 25, 25.1 or 26 that has been discontinued under 37.1;*
>
> *dies leaving a spouse, 60% of the supplementary monthly allowances that he was receiving or that he was or would*

have been entitled to pursuant to sections 25, 25.1 and 26 shall be paid to his spouse for life."

18.72 When a member who has been receiving the annual allowance and the supplementary allowance dies, officials have been calculating the pension to a spouse at the 60% rate of both the annual (section 19) and the supplementary allowance (section 26.1). In each of the years following the death of the member officials have been granting the new annual supplementary allowances to the spouse as provided by section 25, 25.1 and 26 and no reduction to 60% has been made.

18.73 It is my view that the 60% rule contained in section 26.1 would apply to the supplementary allowances granted to the deceased member's spouse subsequent to the date of death of the member as well as before his death. Consequently, the failure to reduce all supplementary allowances to spouses subsequent to the date of death to 60% means that all new supplementary allowances granted subsequent to the date of death of a member exceed the amounts that would be permitted under the current legislation.

18.74 This matter was reported in my 1985 annual report. The matter was considered by the Standing Committee on Public Accounts on April 24, 1986 and the recommendation of the Committee was delayed pending the receipt of further information and further consideration. The information requested was a comparison of the retiring allowances granted to surviving spouses for all Saskatchewan public sector plans.

18.75 The information comparing retiring allowances for Saskatchewan public sector plans was provided to the Standing Committee on Public Accounts May 1, 1986 as research document #E14/86.

18.76 The Committee has not as yet made a recommendation on this matter.

18.77 My representatives observed that the bank account for the Fund was on occasion in an overdraft position.

18.78 This borrowing was not authorized by the Minister of Finance as required by Section 41 of The Department of Finance Act, 1983.

18.79 In addition to the foregoing transactions which did not appear to be in compliance with governing authorities, my representatives made the following observations with regard to the financial reporting of annuity payments.

18.80 The Members of the Legislative Assembly Annuity Payment Regulations state in section 8:

> *"A member shall elect to purchase his annuity:*
>
> *(a) from the Public Employees Benefits Agency; or*
>
> *(b) through the Public Employees Benefits Agency from a corporation that sells annuities and is licensed under The Saskatchewan Insurance Act."*

18.81 It is my contention that when a member elects to receive an annuity for the money standing to his credit in the Members of the Legislative Assembly Superannuation Fund the responsibility to provide that annuity falls upon either the Public Employees Benefits Agency or the corporation chosen to underwrite the annuity.

18.82 If a corporation is chosen to underwrite the annuity then money is transferred to that corporation to fund the member's annuity.

18.83 If the Public Employees Benefits Agency underwrites the annuity, the money should be segregated so that any gains or losses on annuity underwriting do not affect Superannuation Fund members in the future.

18.84 Further, the Public Employees Benefits Agency should annually produce financial statements for the Legislative Assembly which would provide an accounting for the administration of this annuity underwriting activity.

DEPARTMENT OF SOCIAL SERVICES

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19

DEPARTMENT OF SOCIAL SERVICES

19.00 A study and evaluation of the management control systems for the administration of the Department of Social Services disclosed the following conditions which, in my opinion, resulted in more than a relatively low risk that errors or fraud in amounts that would be material in relation to the Department may occur and not be detected in a timely period.

DEFICIENCIES IN CONTROLLING OVERPAYMENTS

19.01 In the fiscal year ended March 31, 1986, the Department of Social Services paid in excess of $190 million to recipients of assistance under the Saskatchewan Assistance Plan (SAP).

19.02 A recipent of social assistance receives benefits based upon the recipient's personal declaration of circumstances.

19.03 Details of the conditions required for payment, and amounts payable under specific circumstances are specified in *The Saskatchewan Assistance Act*, and *The Saskatchewan Assistance Regulations*. These regulations governing the payment of assistance are complex and generally place the onus on the recipient to fully and accurately disclose the circumstances surrounding the need for assistance. The responsibility of the Department to verify the information provided by the recipient is restricted by resources available and has to be balanced against the additional responsibility to be responsive to the needs of the recipient. Given these conditions at times assistance payments are made in excess of that permitted by legislation.

19.04 In order to monitor such overpayments with a view to controlling them, the Department had established a target error rate for overpayments of 4%. The comparison of the actual error rate with the target error rate was to be a measure of whether the overpayments for a given period had remained within acceptable limits.

19.05 It is the responsibility of the Department, in administering the Saskatchewan Assistance Plan, to ensure that information provided by the recipients of assistance is verified for completeness and accuracy. To this end, the Department has established certain prepayment and postpayment verification procedures in order to control incorrect payments.

19.06 During the course of the audit, it was observed that there were a number of instances where the established procedures had not been consistently and properly followed, and as a result incorrect payments had been made.

19.07 The consequence of not following the established procedures in all cases is that incorrect payments are made without ready detection.

19.08 Officials of the Department conducted a study by verifying a sample of SAP cases, and concluded that for the calendar year 1985 the estimated error rate was 13.9% amounting to an estimated net overpayment of $26.7 million. Of this, an estimated $8.3 million was due to officials of the Department not performing procedures to verify information provided by the recipients.

ABSENCE OF COST BENEFIT ANALYSIS TO IDENTIFY COST EFFECTIVE CORRECTIVE MEASURES

19.09 In my 1981 annual report, I reported that the Department should review procedures to ensure that there is a balance between the number of detailed investigations aimed at detecting and limiting overpayments on the one hand, and the cost of such investigations on the other, in order that cost effective measures are established.

19.10 During the period under review, cases involving incorrect payments were analysed by officials of the Department to assess the major causes of overpayments. This is reproduced as follows:

Cause	Percentage of total payments
Living Arrangements	4.8%
Income-unreported wages	2.1
-other sources	2.0
Recipient whereabouts unknown	1.8
Incorrect shelter rates	1.1
Other	2.1
Total	13.9%

19.11 Given the extent of overpayments discussed in paragraph 19.08, the need for efficient and effective remedial action to limit overpayments is apparent.

19.12 In this connection, departmental officials identified the following as possible corrective measures:

i) establish clear and enforceable guidelines for common-law relationships

ii) establish procedures that ensure recipients recognize the importance of reporting all income

iii) prescribe uniform policies for verification for changes in residence

iv) establish uniform policies on calculation of shelter allowances

v) establish a program of recipient home visits, and

vi) perform a closer evaluation of districts which have higher than average error rates

19.13 However, officials have not yet performed cost benefit analyses on these corrective measures.

19.14 A cost benefit analysis by the Department of each of these corrective measures should enable the Department to objectively judge which of the measures will be cost effective to implement.

DEFICIENCIES IN VERIFICATION PROCEDURES

19.15 During the period of my examination, management of the Department implemented control procedures which the Department refers to as "Cheque Pickups" and "Mandatory Reporting".

19.16 Cheque Pickups is a process where a sample of SAP recipients are required to pick up cheques in person. Recipients who do not comply have all future cheques cancelled.

19.17 Mandatory Reporting is a process where a sample of SAP recipients is sent a Mandatory Reporting form in the mail, and unless the form is satisfactorily completed and returned within a specified period of time, future assistance is cancelled. If after cancellation, the recipient inquires about the payments, the recipient is required to be interviewed in person in order for the assistance to recommence.

19.18 Management of the Department have informed my representatives of the following results of the above procedures during the period of my examination:

METHOD	NUMBER OF RECIPIENTS	MONTHLY CHEQUES CANCELLED Number	%	Value
Cheque pickup	8,663	567	6.5%	$234,189
Mandatory reporting	2,614	225	8.6%	$83,933

19.19 One of the aims of the above mentioned procedures should be to identify all cases where assistance is being paid in error and to further investigate. In this connection, although the officials had followed up on a sample of cases where cheques were cancelled, they had not carried out investigations on all cases of cheque cancellations.

19.20 Further investigation of all cheque cancellations is necessary for the following reasons:

i) to gather evidence as to whether fraud was involved, whether by recipient or employee, and

ii) to identify corrective measures to prevent similar situations of overpayments from arising in the future.

ANNUAL DECLARATIONS

19.21 Officials of the Department had not complied with their established procedures to ensure that each recipient of assistance files an annual personal declaration of circumstances. This declaration is intended to ensure that the individual is still eligible and also can affect the amount of assistance to which the individual may be entitled as required by the Saskatchewan Assistance Regulations.

19.22 Failure to obtain annual declarations may result in incorrect payments to recipients without ready detection.

19.23 My representatives observed that approximately 2,700 recipients had not filed this declaration at March 31, 1986 or approximately 9% of the entire case load.

19.24 This matter was also reported in my 1985 annual report.

DEFICIENCIES IN MONITORING BRANCH OPERATIONS

19.25 The Saskatchewan Assistance Plan program is delivered by the Department through its various district offices located throughout the Province.

19.26 The Department has established verification procedures to check the accuracy and completeness of information provided by recipients of assistance. However, as reported in paragraph 19.06, my representative observed that the verification procedures were deficient. Also the monitoring procedures are not in place to select a sufficient number of sample cases of recipients on a district by district basis, and to thus obtain reliable information to monitor the effectiveness of compliance with established procedures by the various district offices.

19.27 The consequence of this absence of procedures to select a statistically valid sample of cases for verification on a district by district basis results in reliable information not being available to monitor the effectiveness of compliance with procedures by the various district offices and thus to readily identify where corrective action needs to be taken.

SENIOR CITIZENS INCOME PLAN

19.28 In my 1985 annual report I reported that the management control systems put in place to establish that recipients of assistance under the Saskatchewan Income Plan - Senior Citizens Benefits - Special Care Facilities Program established July 1, 1984, was not adequate to ensure that only eligible seniors received benefits under the program.

19.29 The accuracy of the determination of eligibility for a senior is dependent on:

(1) the accuracy and timeliness of information submitted by officials of special care facilities,

(2) the availability of a Federal Old Age Security/Guaranteed Income Supplement identification number on the census information maintained by the Department of Health,

(3) the accuracy of the match of the information obtained above.

19.30 Officials of the Department have conducted a review of some recipient files and determined that overpayments continue to occur for the 12 months ended March 31, 1986.

OTHER AUDIT OBSERVATIONS

19.31 My representatives were informed by officials of the Department that they had conducted fraud investigations on six hundred and forty one cases involving $1,948,805 of which one hundred and forty seven cases were referred to the police for investigation.

DEPARTMENT OF SUPPLY AND SERVICES

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20

DEPARTMENT OF SUPPLY AND SERVICES

CENTRAL VEHICLE AGENCY

20.00 Officials of the Department of Supply and Services administer the Central Vehicle Agency Revolving Fund.

20.01 Each government agency has a responsibility to ensure that its expenditures are properly authorized by management in accordance with relevant legislation, and are accurately and completely recorded in its accounts. In order to adequately discharge this responsibility, each agency must have in place a system of internal control sufficient to satisfy management that the above responsibilities are complied with.

20.02 Additionally, all agencies which prepare their own financial statements must also have controls in place which allow the agency to prepare accurate financial statements in accordance with an appropriate basis of accounting.

20.03 The Comptroller, Department of Revenue and Financial Services makes payments which are charged to the appropriation for the Central Vehicle Agency Revolving Fund.

20.04 The Comptroller makes payments based upon payment vouchers which have been approved by the duly authorized officials of the Department of Supply and Services.

20.05 The Comptroller subsequently produces a report for officials of the Department detailing the payments which were charged to the appropriation for the Revolving Fund.

20.06 Officials of the Department did not have a control procedure in place to compare the monthly report of what was paid by the Comptroller and charged to the Revolving Fund appropriation with what the officials originally authorized.

20.07 In addition, the reports produced by the Comptroller are used by officials of the Department to record transactions in

the Department's records. The Department's records are the records which are used to prepare financial statements.

20.08 Timely and accurate financial statements are necessary to assist officials of the Department and others in assessing the operation of the Revolving Fund.

20.09 Accordingly, there was an absence of control procedures in the Department to ensure that only authorized transactions were charged to the Central Vehicle Agency Revolving Fund appropriation and to ensure that essential records were maintained that would permit officials to prepare accurate financial statements.

20.10 The Department utilizes the services of Saskatchewan Computer Utility Corporation (SaskComp) for data processing for the Central Vehicle Agency Revolving Fund. The Department has the responsibility to ensure that the computer operating system and processing environment is administered in such a manner as to achieve proper integrity over the processing operations done for the Department, and to maintain security over Departmental programs and data files in accordance with policies and standards established by the Department.

20.11 In order to discharge this responsibility, officials of the Department must ensure their data files and programs are protected from unauthorized access.

20.12 Officials of the Department have acquired the use of a security software package offered by SaskComp to control access to data files and programs. If this security software package is implemented appropriately it provides many of the necessary controls for the access to the Department's programs and data files.

20.13 Officials of the Department have not appropriately implemented the security software package so as to ensure that only authorized personnel have access to appropriate data and program files.

20.14 This weakness allows the possibility that the security of Departmental data files and programs may be compromised.

20.15 In addition to the foregoing deficiencies in the management control systems for the operation of the Central

Vehicle Agency Revolving Fund, my representatives made the following observations:

20.16 I am advised that in October, 1985, the Department received approval to proceed with the purchase of a medically equipped aircraft to upgrade the Provincial Air Ambulance Service.

20.17 On December 5, 1985, the Department of Supply and Services issued a purchase order for approximately $1.57 million U.S. for the purchase of a used aircraft from an American company to be delivered on December 31, 1985. At that time a cheque for $25,000 U.S. was issued as a deposit on the transaction on the understanding noted on the purchase order that *"If purchaser fails to accept delivery or pay balance at time agreed upon, Seller shall retain deposit, not as a forfeiture but as liquidated damages for purchaser's default".*

20.18 Prior to December 31, 1985, a decision was taken not to proceed with the purchase of any new aircraft and the order was cancelled and the deposit of $25,000 U.S. was retained by the company as a default on the contract.

20.19 In my opinion, the above represents a loss to the Crown.

SUPPLY AGENCY REVOLVING FUND

20.20 Officials of the Department administer the Supply Agency Revolving Fund.

20.21 Important elements of any system of management controls for an organization encompass the following:

i) proper hiring practices to ensure that those hired have adequate technical training and skills to meet the demands of their jobs;

ii) adequate training programs, including job descriptions and procedures manuals, which should help to avoid uncertainties as to what is to be done and who is responsible should errors or omissions occur; and

iii) adequate supervision to identify errors, misunderstandings and inadequate procedures.

20.22 The number of specific observations noted below suggests that, in my view, the above controls are not in place for the administration of the financial affairs of the Revolving Fund to provide management with reasonable assurance that accurate financial statements can be prepared. These problems may be due to one or more of the following reasons:

i) inadequately trained staff, resulting in errors;

ii) poor communication of responsibilities and follow up to ensure jobs are completed;

iii) inadequate communication between accounting and non-accounting staff; and

iv) lack of detailed management review of results.

20.23 The following observations are reported as examples of the errors that occurred because of the deficiencies described above.

20.24 Several significant clerical errors were made in valuing the year-end inventory with the result that the inventory was incorrectly valued.

20.25 Accounts payable recorded at the year-end included an error which resulted in net income being significantly overstated.

20.26 The word processing maintenance costs attributable to one particular supplier were being accrued on a monthly basis rather than being recorded from the actual invoices. This was being done because in some cases invoices had not been received and in some cases the invoices received were disputed.

20.27 The accrual of expenses in the above manner is an acceptable accounting practice, however, it is also essential that the accuracy of the estimate be checked from time to time. This had not been done in all instances, with the result that improper expenses were recorded

20.28 As a result of the inaccurate word processing maintenance expenses, as described above, a number of customers were not billed or were incorrectly billed for maintenance costs.

20.29 There was inadequate follow-up of old outstanding accounts receivable.

20.30 There has never been a physical count or other verification of the existence of recorded equipment. Furthermore, the equipment records are not sufficiently complete to enable identification by serial number. This weakness could result in a misappropriation of assets without detection.

DEPARTMENT OF TOURISM AND SMALL BUSINESS

21.00 The Department is responsible for the administration of the Venture Capital Tax Credit Program.

21.01 Subsection 8(1) of The Venture Capital Tax Credit Act states:

> *"(1) A venture capital corporation shall set aside in a trust fund an amount of money equal to 30% of all amounts received by it as equity capital."*

and subsection 8(2) of the same act further states, in part:

> *"(2) The trustee...shall hold the trust fund in trust jointly for:*
>
> *(a) the venture capital corporation; and*
> *(b) the Crown;*
>
> *to be dealt with in accordance with this section."*

21.02 The Crown has recourse to such a trust fund, for instance, as a means of compensation for any tax credits issued to shareholders of a registered venture capital corporation, when registration as a venture capital corporation is subsequently revoked for whatever reason specified by the aforementioned Act.

21.03 Consequently, confirmation of the existence of such a trust and its conditions is an important control objective in the management of this program.

21.04 In order to achieve this control objective the established, documented procedures of the Department require the officials to contact the trustees of the aforementioned trust funds to confirm the existence and conditions of the trust.

21.05 However, during the period under review, my representatives observed several instances where a written confirmation, as required by the aforementioned documented procedures, had not been obtained.

21.06 This omission to obtain written confirmations is due to the lack of compliance by the officials with established procedures rather than an absence of established procedures.

21.07 The possible consequence of lack of compliance with prescribed procedures is a greater risk that in the event the crown were to later require compensation it may not have recourse to the required trust funds.

21.08 Each government agency has a responsibility to ensure that its expenditures are authorized by management in accordance with relevant legislation. In order to adequately discharge this responsibility each agency must have in place a system of controls sufficient to satisfy management that the above responsibilities are complied with.

21.09 During the 1985/86 fiscal year, the Department of Tourism and Small Business (TSB) obtained from the Department of Supply and Services the following accounting and financial reporting services:

i) receiving, recording and depositing revenues of TSB,

ii) processing payments and journal vouchers, based on supporting documents, approved by the relevant officials at TSB, through the central Revenue and Expenditure System (R.E.S.),

iii) providing payroll and personnel functions, and

iv) in the interest of expediency, processing a number of payments, primarily relating to such items as telephone, airline travel and Central Vehicle Agency costs, prior to obtaining written approvals as to their propriety from appropriate officials at TSB.

21.10 The Comptroller, Department of Revenue and Financial Services, makes payments which are charged to the appropriations for TSB.

21.11 The Comptroller makes these payments based upon payment vouchers which have been duly authorized by officials of TSB or officials of the Department of Supply and Services.

21.12 The Comptroller subsequently produces reports for officials of TSB detailing the payments which were charged to the appropriations for TSB and the details of revenues received.

21.13 Some branch officials of TSB reviewed and evidenced their review of the periodic financial reports produced by the Central R.E.S. system to establish the accuracy, authorization and completeness of the payroll and other expenditures charged against their appropriations. However, the requirements of such review procedures were neither well documented nor sufficiently monitored centrally to ensure consistent and properly evidenced review by branch officials.

21.14 The absence of documented procedures and evidence of monitoring increases the risk that employees may not carry out the appropriate review to effectively control the Department's appropriations with the result that the risk is increased that commitments may be incurred in excess of that allowed by statute or officials may fail to detect on a timely basis, incorrect, incomplete or unauthorized charges made against the Department's appropriation.

DEPARTMENT OF URBAN AFFAIRS

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DEPARTMENT OF URBAN AFFAIRS

22.00 Officials of the Department of Urban Affairs administer the Northern Revenue Sharing Trust Account.

MANAGEMENT CONTROL DEFICIENCIES

22.01 Inherent in any system of management controls is the communication of policies and procedures. This communication would normally take the form of written policies and procedures. Part of these written policies would be a formal assignment of responsibility and delegation of authority. In this regard, Treasury Board has directed that all delegations of authority should be made in writing.

22.02 The Minister of Urban Affairs is responsible for the administration of the Northern Revenue Sharing Trust Account. Section 285 of The Northern Municipalities Act allows the Minister to delegate any of the powers and duties, conferred or imposed by the Act or the regulations, to any official or employees of the Department.

22.03 The Minister of Urban Affairs has not provided any written delegation of authority for the powers and duties with respect to the administration of the Trust Account. This would include signing authorities for expenditures under section 291 of The Northern Municipalities Act, authorization to allow discounts on prepayment of taxes under Section 236 of the Act and the appointment and remuneration of all employees of Northern Settlements under section 49 of the Act.

22.04 In this regard, all expenditures made were not approved by the Minister and accordingly appear to have been made without proper authority. In addition, all discounts allowed for prepayment of taxes appear to be without proper authority.

22.05 Also in connection with this management control deficiency, I report that subsection 256(1) of The Northern Municipalities Act and a Treasury Board directive regarding banking were not complied with.

22.06 With respect to the write-off of outstanding receivables from tax billings, subsection 256(1) reads as follows:

> *"256(1) Subject to the approval of the minister, or in the case of the minister acting on behalf of the district notwithstanding The Department of Revenue and Financial Services Act and The Department of Finance Act, 1983, a council may compromise or abate the claim of the northern municipality for taxes or other indebtedness owing by any person to the northern municipality, and may enter into an agreement for payment of any balance owing on any terms that may be agreed upon, or may refund any amount already paid, and adjust the tax roll accordingly."*

22.07 During the audit examination, it was noted that the approval of the minister was not obtained for the write-off of several outstanding receivables from tax billings. Write-offs during the year were comprised of $17,848.80 of school taxes and $10,492.65 of municipal taxes.

22.08 Treasury Board's Accounting and Reporting Policy Manual, section AR610 on opening of bank accounts states:

> *"No department, bureau, commission, institution or organization administered by or in charge of a member of the government shall open an account with any chartered or private bank or transact any banking business unless by order of the Minister or Deputy Minister of Finance and subject to such terms as the Minister may consider advisable."*

22.09 During the audit examination, it was noted that an order of the Minister or Deputy Minister of Finance was not obtained for the opening of four new bank accounts in 1985.

22.10 Also inherent in any system of management controls are policies and procedures that require the preparation of interim financial statements and the review and approval of interim financial statements by management. These financial statements would include a comparison to a benchmark such as a budget so that management can monitor actual performance.

22.11 These procedures are necessary to provide a system to analyze results to determine if corrective action is necessary to ensure that the goals or intentions of management are achieved.

22.12 My representatives observed that there are no operating or capital budgets prepared for the administration of the Trust Account, including the northern municipalities for which the Trust Account is responsible. In addition, no periodic financial reports were prepared summarizing the financial activities of the Trust Account. There are currently no documented policies and procedures with respect to the preparation, format and timing of periodic interim financial reports.

22.13 As a result of this weakness, the planning and monitoring of the financial activities of the Trust Account may not be adequate. Those involved in the planning and monitoring of the Trust Account operations include the Minister of Urban Affairs, his designated officials, including the Director of Northern Municipal Services, and the Local Advisory Committee elected in accordance with Part III of The Northern Municipalities Act.

22.14 In order to safeguard and control public property it is necessary to have a record of the assets for which an organization is responsible.

22.15 There is no detailed fixed asset record maintained in respect of the fixed assets of the Northern Settlement of Uranium City.

22.16 As a result of this weakness, fixed assets may be lost or misappropriated without detection by management.

NON-COMPLIANCE WITH AUTHORITIES

22.17 In addition to the foregoing management control deficiencies, my representatives observed that officials of the Department had not complied with subsection 291(7) of The Northern Municipalities Act.

22.18 Subsection 291(7) requires a statement of the expenditures made under section 291 to be included in the annual report of the Department of Urban Affairs.

22.19 During the audit examination, it was noted that a statement of the expenditures made under section 291 for the year ending December 31, 1984 was not included in the 1984-85 annual report of the Department of Urban Affairs.

OTHER MATTERS

22.20 In my 1985 annual report I reported that I had completed my audit of the December 31, 1984 financial statements for the Northern Revenue Sharing Trust Account but I had not issued my report as I was awaiting Treasury Board approval of the financial statement format.

22.21 I also reported that I would report any reservation of opinion on the 1984 financial statements in my 1986 annual report.

22.22 My auditor's report on the 1984 financial statements has now been issued. This report had a reservation of opinion and reads in part as follows:

> *"Note 6 to the financial statements states that the financial operations of the hospital in the Northern Settlement of Uranium City are not consolidated with these financial statements since separate financial statements are prepared and reported upon in accordance with the requirements of Health and Welfare Canada. In my opinion, the preparation of separate financial statements is not, of itself, an acceptable reason for not consolidating the operating fund of the hospital in the financial statements. Conflicting legal opinions have left some uncertainty as to the legally correct treatment to be accorded to the hospital operations and the net working assets of the hospital in these financial statements. Since a resolution of this legal question was not achieved at the date of finalization of these financial statements, I was unable to obtain sufficient appropriate audit evidence to satisfy myself that the exclusion of the hospital operations and net working assets from these financial statements is appropriate. Accordingly, I am unable to determine whether an adjustment is required to the Operating Fund Balance Sheet and Statement of Revenue, Expenditure and Fund Balance to fully consolidate the hospital operations conducted in Uranium City in these financial statements.*
>
> *As outlined in note 6 to the financial statements, the school facilities in Uranium City have been reflected in the Capital Fund Balance Sheet of the Trust Account based on the premise that ownership of these assets rests with the Trust Account on behalf of the Northern Settlement of Uranium*

City. Conflicting legal opinions have left some uncertainty as to the legally correct treatment to be accorded to the school facilities. Since a resolution of this legal question was not achieved at the date of finalization of these financial statements, I was unable to obtain sufficient appropriate audit evidence to satisfy myself that the inclusion of the school facilities in these financial statements is appropriate. Accordingly, I am unable to determine whether an adjustment is required to the Capital Fund Balance Sheet to remove the recorded values of the school facilities in Uranium City presently reflected therein in the amount of $7,446,331.

As outlined in Note 7 to the financial statements, assets acquired on behalf of northern settlements by the Northern Municipal Council are not included in the Capital Fund Balance Sheet because the necessary documentation has not been obtained by Trust Account management which would permit the identification and valuation of these assets. Accordingly, I am unable to determine what adjustment is necessary to the Capital Fund Balance Sheet to reflect this property which, according to stature, is to form one component of the Trust Account.

In view of the possible material effects on the financial statements of the matters described in the preceding paragraphs, I am unable to express an opinion as to whether these financial statements are presented fairly in accordance with an appropriate disclosed basis of accounting."

22.23 At March 31, 1987, I had completed my examination of the financial statements of the Northern Revenue Sharing Trust Account for the year ended December 31, 1985, which were submitted to me for audit examination by management. These financial statements, however, have not received format approval as required by Treasury Board and, accordingly, I have not issued my auditor's report thereon.

22.24 Accordingly, should my report on the 1985 financial statements contain a reservation of opinion, I will provide details of any reservation of opinion in my 1987 annual report.

23

INDIAN AND NATIVE AFFAIRS SECRETARIAT

23.00 One element of management controls is a system that ensures that public money disbursed to grant recipients is used for the purposes intended by the Legislature. In this regard the Lieutenant Governor in Council has authorized the disbursement of grants under the Indian Economic Development Program and has specified in the Orders-in-Council certain conditions attaching to these grants.

23.01 During the fiscal year ended March 31, 1986, the Secretariat made approximately $2 million of grants under this program. Most of these grants were distributed under the authority of Orders-in-Council containing the following significant terms and conditions:

i) The grant is to be utilized only for development of the business and for no other purposes whatsoever. The grant shall be allocated in a specified manner. No deviations with respect to such allocations shall be made without the express written consent of the Minister.

ii) The grant monies are only to be advanced when the project is fully operational. Projects are deemed fully operational when all assets required for the operation of the project, as described in the application by the recipient, have been acquired or firmly committed.

iii) Contributions to the project from recipients shall be structured as capital contribution or as loans made by recipients to the project. The nature of such contributions may be cash, contributed labour, or contributed assets.

iv) Recipients shall allow officials of the Secretariat to inspect the project premises, equipment and stock-in-trade used in the operation of the project and the financial records and information.

v) Insurance shall be placed on the assets belonging to the project with the policy naming the Secretariat as a second payee, subordinate only to the interest of any financial institution which has loaned funds to the project.

vi) The project shall be operational for a three year period. If this condition is not satisfied, the grant shall be repaid on a pro rata basis.

23.02 Officials of the Secretariat had not implemented an adequate system to ensure that there is documented evidence that the conditions attached to the grants by the Orders-in-Council have been adequately discharged by the grant recipients.

23.03 This matter was reported in my 1985 annual report.

23.04 Officials of the Secretariat informed my representatives that during the period of the examination the Secretariat was in the process of designing control procedures to ensure that grant recipients did comply with the significant terms of the grants. However, as of March 31, 1986, the necessary controls were not yet implemented in a form which my representatives were able to review.

24

LEGISLATIVE ASSEMBLY OFFICE

24.00 For several years I have had ongoing discussions with the Clerk of the Legislative Assembly concerning the travelling expenses of members of the Legislative Assembly.

24.01 Section 52 of The Legislative Assembly and Executive Council Act provides for the payment to a member for each kilometre travelled by private automobile in the province or other travel costs incurred to attend to the discharge of his duties as a member, subject to a maximum limit in each constituency. In my opinion, the legislation requires that a member making a claim for payment under this section, is to base the claim on costs incurred.

24.02 During the audit examination it was noted that members' claims for payments were not supported by details as to dates of trips, kilometres travelled or other costs incurred and that many members were submitting their claims at the beginning of the year for the maximum travel expense limit.

24.03 In my opinion, the payment to members of the maximum annual expense claim at the beginning of the year, or without adequate supportive documentation, is contrary to the intention of the Act.

24.04 I am of the opinion, that if it is the Legislature's intent that members are to be paid in advance of incurring their travelling expenses, the legislation should be amended to provide for this practice.

24.05 This matter was reported in my 1985 annual report and discussed by the Standing Committee on Public Accounts on May 1, 1986. The Committee has not made a formal recommendation to the Legislative Assembly on this matter.

25

LIQUOR LICENSING COMMISSION

25.00 During the course of the examination of the records of the Liquor Licensing Commission for the year ended March 31 1986, my representatives observed an instance where payments were made without adequate authority.

25.01 Section 4 of The Liquor Licensing Act states *"The Lieutenant Governor in Council shall appoint the members of the commission and fix their respective salaries or remuneration."*

25.02 At March 31, 1985 there was not a current Order-in-Council for appointment of members to the Liquor Licensing Commission. The last Order-in-Council (1644/83) for appointment of members to the Commission contained a clause which provided for the expiry of all appointments to the Commission on September 1, 1984.

25.03 Therefore, it is my opinion that payments of approximately $26,000 made from September 1, 1984 to March 31, 1985 to the former commissioners were without adequate statutory authority.

25.04 Order-in-Council 718/85 dated June 27, 1985 appointed members to the Liquor Licensing Commission and fixed their respective salaries or remuneration. However, since this Order-in-Council was dated June 27, 1985, it is my opinion that payments of approximately $10,000 made from April 1, 1985 to June 26, 1985 to former commissioners were without adequate statutory authority.

MUNICIPAL EMPLOYEES' SUPERANNUATION COMMISSION

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MUNICIPAL EMPLOYEES' SUPERANNUATION COMMISSION

FINANCIAL REPORTING

26.00 In my 1985 and 1984 annual reports I reported that officials of the Municipal Employees' Superannuation Commission had not implemented appropriate systems nor maintained, appropriate accounting records for The Municipal Employees' Superannuation Fund to determine the financial position and results of its annuity underwriting activities and the results of paying allowances under the new plan.

26.01 In the absence of such systems and accounting records officials of the Commission do not have sufficient information to prepare financial statements in accordance with appropriate accounting principles.

26.02 I also reported in my 1985 and 1984 annual report that as a result appropriate financial statements had not been prepared for the years ended December 31, 1984 and 1983.

26.03 On May 29, 1985, in a public hearing, the Standing Committee on Public Accounts heard testimony from officials of the Commission regarding the financial reporting problems of the Commission.

26.04 The Committee made the following motion:

> *"That the Public Accounts Committee recommend to the Municipal Employees' Superannuation Fund that the fund shall report its activities to show the financial position of the former Plan, the financial position and results of its annuity underwriting activity, and the financial position and results of operations under the new plan including a comparison of new plan assets to obligations to pay allowances to new plan members and for the Municipal Employees' Superannuation Fund to report back to the Public Accounts Committee as soon as possible."*

26.05 On April 10, 1986, the Standing Committee on Public Accounts again heard testimony from officials of the Commission regarding financial reporting problems of the Commission.

Municipal Employees' Superannuation Commission

26.06 On April 10, 1986, the Standing Committee on Public Accounts made a further report to the Legislative Assembly regarding the Municipal Employees' Superannuation Commission.

26.07 The report read in part:

> *"Your Committee passed a motion at its meeting this morning respecting compliance by the Municipal Employees' Superannuation Commission, "That the Municipal Employees' Superannuation Commission be required to prepare their financial statements in accordance with the Provincial Auditor's Report of 1985 and to otherwise comply with the Provincial Auditor's Report"; we adjourned the Public Hearing on the matter and agreed to report to the House this afternoon to present the Committee's observations on the Commission by their ignoring the Office of the Provincial Auditor, the Standing Committee on Public Accounts and, especially, this Legislative Assembly which has concurred in the two previous Committee Reports dealing with the Municipal Employees' Superannuation Commission.*
>
> *Your Committee is as much concerned with the fact that the Municipal Employees' Superannuation Commission's financial statements do not accurately reflect what the Provincial Auditor says they should as with the Commission's continuing defiance of the Assembly when it adopted the recommendation of the Public Accounts Committee.*
>
> *A public hearing into the Municipal Employees' Superannuation Commission by this Committee on May 29, 1985 produced the following motion:*
>
> > *That the Public Accounts Committee recommend to the Municipal Employees' Superannuation Fund that the fund shall report its activities to show the financial position of the former Plan, the financial position and results of its annuity underwriting activity and the financial position and results of operations under the new plan including a comparison of new plan assets to obligations to pay allowances to new plan members and for the Municipal Employees' Superannuation Fund to report back to the Public Accounts Committee as soon as possible.*
>
> *The Commission's administrators are still deficient in fulfilling this request."*

26.08 I report that, in my opinion, the Commission now has implemented appropriate procedures and maintained appropriate records and has in all material aspects complied with the motion of the Standing Committee on Public Accounts.

TRANSACTIONS WITHOUT APPARENT AUTHORITY

26.09 In addition to the foregoing, during the course of the examination my representatives observed the following transactions which were without apparent authority.

26.10 Section 41 of The Department of Finance Act, 1983, states:

> *"Notwithstanding the Provisions of any other Act, no department, board, Commission or agent of the Government of Saskatchewan and no Crown Corporation shall borrow any moneys without the approval of the minister."*

26.11 During the audit, it was observed that The Municipal Employees' Superannuation Fund's bank account was overdrawn on December 31 1984, but the required approval was not obtained for this borrowing.

26.12 Pursuant to Section 57(d) of The Municipal Employees' Superannuation Act the Lieutenant Governor in Council made regulations authorizing the payment of additional allowances to superannuates as prescribed in Orders-in-Council 1061/80, 1120/82 and 997/84. These regulations specifically authorized the payment of additional allowances to superannuates or surviving spouses receiving allowances under the Act. My representative observed that the Commission had disbursed additional allowances to superannuates who were receiving annuities from the Commission under provisions of the former plan and to superannuates who had withdrawn their contributions and were receiving annuities from private insurance companies. In my opinion, the regulations authorized additional payments only to those superannuates who were receiving regular allowances out of the Fund. Therefore, the additional allowances paid, to individuals who were receiving annuities from the Commission or insurance companies are, in my opinion, payments without authority.

26.13 Section 8 of The Municipal Employees' Superannuation Act states that, subject to the approval of the minister, the Commission may enter into agreements with persons representing

any other pension plan to provide for the transfer of pension credits and contributions between plans. My representatives observed that an agreement was signed during 1985, without the approval of the minister. In my opinion, the Commission has not complied with Section 8 of the Act.

27

NORTHERN FOREST OPERATIONS LTD.

27.00 Northern Forest Operations Ltd. is a wholly owned subsidiary of Saskatchewan Forest Products Corporation.

27.01 Essential in an appropriate system of management controls are control procedures which permit management to review, analyze and control the operations of the organization as well as procedures for the Board of Directors to monitor the performance of the management. Key elements of such a system are budgets and an effective internal interim financial reporting system so that management and the Board of Directors have financial information to assess performance and adjust operations as necessary to meet targets established in the budget.

27.02 During the course of the audit it was observed that no budget process was in place and there was no documentation of the review of the monthly financial statements by the Board.

27.03 Also essential to an appropriate system of management controls is an organizational plan to ensure that there is a segregation of duties among employees, to ensure that no one person is responsible for the authorization, record keeping and the custody of assets.

27.04 This segregation is necessary to ensure that no one person is in a position to misappropriate assets and alter the records to conceal the misappropriation.

27.05 During the course of the audit it was observed that there was an inadequate segregation of duties over the cash receipts and the recording of revenue.

27.06 It was also observed that there was an inadequate segregation of duties over cash disbursements and the recording of the accounts payable.

27.07 Also important to an appropriate system of management controls are rules and procedures that ensure that

transactions are promptly recorded in the correct amount which would include periodic balancing and reconciling procedures to ensure the accuracy and reliability of the accounting records.

27.08 The comparison of logs cut with lumber sawn, planed and sold was inadequate.

27.09 An important control over sawmill operations is to compare the footage of logs put into production with lumber produced and lumber put into the planer with planed lumber produced. Such a comparison enables the calculation of "over-runs and under-runs", which should be compared with pre-established estimates for each process in each mill. Officials of the company encountered difficulties calculating "over-runs and under-runs", and have not established estimates for each process to allow for an appropriate evaluation of "over-runs and under-runs".

27.10 Also lumber produced should be reconciled to lumber sold, or in inventory, to determine shortages in the yard calculations. This comparison was only done at year end and not throughout the year.

27.11 If the comparisons discussed in paragraphs 27.08 to 27.10 are not performed, there could be undetected shortages of lumber. These might be caused by theft, sales not being charged to customers, sawing problems, poor quality logs, etc.

27.12 It was also observed that officials of the company did not reconcile the accounts receivable ledger to the general ledger control account.

27.13 The absence of this control procedure together with the inadequate segregation of duties discussed in paragraph 27.05 increases the risk that errors or fraud may occur and not be detected on a timely basis.

27.14 In order to safeguard and control public property it is necessary to have a record of the assets for which an organization is responsible.

27.15 It was observed that there was not a detailed fixed asset record maintained.

27.16 As a result of this weakness, fixed assets may be lost or misappropriated without ready detection.

27.17 In addition to the foregoing, my representatives observed that a copy of the audited financial statements of this Crown agency is not tabled in the Legislative Assembly. As a result, the government is not fully accountable to the Members of the Legislative Assembly for the administration of this company.

28

OFFICE OF THE EXECUTIVE COUNCIL

28.00 Each government agency has a responsibility to ensure that its expenditures are properly authorized by management in accordance with relevant legislation and that they are accurately and completely recorded in the accounts. In order to adequately discharge this responsiblity each agency must have in place a system of management controls sufficient to satisfy management that the above responsibilities are complied with.

28.01 Such a system would include written communication of policies and delegation of authority from senior management to employees together with a system of controls to ensure that all transactions complied with the policies and delegation of authority.

28.02 The Comptroller, Department of Revenue and Financial Services, makes all payments on behalf of the Office of the Executive Council.

28.03 The Comptroller makes payments based upon payment vouchers which have been duly authorized by those officials authorized to do so by Treasury Board.

28.04 The Comptroller subsequently produces a report for officials of the Office detailing the payments which were charged to the appropriations for the Office.

28.05 Officials of the Office did not have documented control procedures in place to ensure that all expenses paid by the Comptroller and charged to the appropriations for the Office were properly authorized, accurate and complete.

28.06 The consequence of this weakness is that the Office of the Executive Council may fail to detect incorrect, incomplete or unauthorized charges made against its appropriations on a timely basis.

29

SASKATCHEWAN CENTRE OF THE ARTS

29.00 Inherent in an appropriate system of management controls is written communication of any delegation of authority to an official and procedures to ensure that all transactions comply with the delegation.

29.01 During the course of the examination my representatives observed that there was an absence of control procedures to ensure that all transactions entered into by the Saskatchewan Centre of the Arts were authorized by the appropriate person.

29.02 The following observations were made regarding this deficiency in control procedures:

- payments were being approved after the release of cheques to the suppliers.

- purchase order approval was not being obtained for all purchases and there was no indication of goods received or services rendered for several payments during the year. My representatives observed an instance where a payment was made to a supplier in the amount of $11,134 where the invoice from the supplier was for $1,134. This amount was subsequently recovered from the supplier.

- $32,204 of fixed assets purchases were made which were not authorized by the Minister in charge as required by the authorization policy adopted by the Board of Directors.

29.03 Also inherent in an appropriate system of management controls is an organizational plan to ensure that there is an appropriate segregation of duties to ensure that no one person has responsibility for the custody of an asset and the records controlling the asset.

29.04 This segregation is necessary to ensure that no one person is in a position to misappropriate assets and alter the records to conceal the misappropriation.

29.05 My representatives observed that the control procedures used by officials of the Saskatchewan Centre of the Arts were not sufficient to obtain an appropriate segregation of duties over the centre's bank account.

29.06 During the course of the audit, my representatives observed that an individual who had access to the cheque signing machine was also involved in cheque preparation and recordkeeping. In addition, there was no requirement for two people to be present for the operation of the cheque signing machine.

29.07 This deficiency in control procedures could result in incorrect and unauthorized payments being made which may not be readily detected.

30

SASKATCHEWAN CROP INSURANCE CORPORATION

30.00 Inherent in an appropriate system of management controls is the formal communication of policy and delegation of authority from senior management to the appropriate employees and procedures to ensure that there is compliance with the policy and delegation.

30.01 During the course of the examination my representatives observed that the Corporation's policies and procedures manual was not current and complete.

30.02 The result of the absence of this formal communication of policy and procedures increases the risk that control procedures may be inadequate or that they may not operate effectively thus permitting errors or fraud to occur without detection.

30.03 During the course of the examination my representatives observed that two of the Corporation's senior officers who had the authority to sign cheques had left the employ of the Corporation. The Corporation did not notify its bankers for a considerable period of time that these persons were no longer authorized to sign cheques or transact any other business with the banks.

SASKATCHEWAN HOUSING CORPORATION

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- Senior Citizens Home Repair Assistance Program	31.00
- Public and Non-Profit Housing Projects	31.03
- Disbursements	31.13
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SASKATCHEWAN HOUSING CORPORATION

SENIOR CITIZENS HOME REPAIR ASSISTANCE PROGRAM

31.00 Saskatchewan Housing Corporation provides grants to senior citizens to assist them in making repairs to their homes. The procedures for making these grants are not adequate to ensure that grants are made only to eligible recipients.

31.01 The Senior Citizens Home Repair Assistance Regulations set out an income test for a person to qualify for a grant. An applicant is granted assistance based upon the personal declaration of income by the applicant. Officials of the Corporation do not perform any verification of the income declared by the applicant to determine the accuracy of the declared amount.

31.02 This matter was also reported in my 1985 annual report.

PUBLIC AND NON-PROFIT HOUSING PROJECTS

31.03 The Corporation is responsible for the operation and administration of the public and non-profit housing projects in the province. For a majority of the projects, the Corporation has delegated the authority for operation to either public housing authorities established pursuant to Section 18 of The Saskatchewan Housing Corporation Act or to independent property management companies.

31.04 In performing this responsibility, the Corporation requires board minutes from the housing authorities and monthly or quarterly operating reports from all housing projects.

31.05 In addition, annual audited financial statements of the public housing authorities and non-profit housing projects are required to be prepared and submitted to the Corporation.

31.06 During the audit examination, the following observations were made:

31.07 The Corporation does not have adequate procedures in place to ensure that all board minutes and operating statements required are received and reviewed.

31.08 During the audit examination, my representatives noted that board minutes were not on file for five of the 28 housing authorities examined. A review of the non-profit housing projects indicated that a number of operating statements were not on file. In addition, there was not always evidence that operating statements and board minutes received were reviewed by officials of the Corporation.

31.09 The Corporation provides an "Audit Terms of Reference" document to each auditor of a public or non-profit housing project. This document outlines the Corporation's requirements for the audit.

31.10 The terms of reference do not, however, require the auditor to report to the Corporation any significant observations they have made while conducting their audit except for tenant income verification for public housing.

31.11 As a result of the above weaknesses, the Corporation may be unaware of control weaknesses existing at the housing authority/project or non-compliance with prescribed policies and the corresponding risk posed with respect to the loss of public monies.

31.12 This deficiency together with the lack of detailed procedure manuals for the use of project managers of non-profit housing projects increases the risk of these projects not operating as intended by the Corporation.

DISBURSEMENTS

31.13 Inherent in a system of management controls is an adequate segregation of duties that does not permit one person to be left in a position to perpetrate and conceal errors or fraud. In a computer environment, because of the concentration of many accounting functions, effective control of processing is required in order to adequately achieve the desired segregation of duties.

31.14 My representatives observed that the control procedures over payments were not adequate to effectively segregate the duties of employees involved in the payment process to prevent or detect in a timely period unauthorized payments.

31.15 In addition, the Corporation's established procedures require the clerical accuracy of the documents supporting payments to be checked by one of the officials approving vouchers for payment.

31.16 My representatives examined a representative sample of payment documents and checked the clerical accuracy of the supporting documents to determine whether or not the Corporation's control procedures were operating.

31.17 The examination identified errors in the clerical accuracy of the documents supporting certain payments. Due to the relative incidence of errors in the sample, it was concluded that the procedures for checking support documents were not sufficient to ensure clerical accuracy.

NO REGULATIONS FOR PROGRAMS

31.18 In addition to the foregoing management control deficiencies my representatives made the following observations regarding non-compliance with legislative authorities.

31.19 In previous annual reports I expressed the view that, by virtue of the regulation making process provided for in Sections 14, 15 and 16 of The Saskatchewan Housing Corporation Act, the Legislature intended the Executive Council to exercise control over the eligibility criteria governing the grant and subsidy programs administered by the Corporation, appropriations for which totalled $25 million in the 1985-86 fiscal year.

31.20 In response, the President of the Corporation indicated that proposed amendments to The Saskatchewan Housing Corporation Act, which addresses the issue of regulations, was being reviewed by the Comptroller's Office and the Legislative Review Committee. Since there have not yet been any amendments, I continue to recommend that regulations be issued under the above sections to govern the specific program criteria applicable to the grant and subsidy programs of the Corporation. This would include any programs where new commitments are being made or old programs which continue to be administered by the Corporation.

31.21 The following programs did not have regulations governing their operations at December 31, 1985:

Saskatchewan Housing Corporation

a) Co-operative Housing

b) Farm Housing

c) Handicap Home Modification

d) Build-A-Home

e) Saskatchewan Family Home Purchase

f) Non-Profit Sponsors of Senior Citizen's Accommodation (New in 1985)

32

SASKATCHEWAN LEGAL AID COMMISSION

32.00 With computerized accounting systems it is particularly important that effective systems development controls be present so that prescribed procedures are observed and approvals obtained before new systems or system modifications are implemented. Such controls will normally ensure that new systems are designed efficiently and will generate the information necessary to meet the needs of both internal and external users as well as ensuring that proper studies have been performed and that adequate conversion plans are in place prior to implementation.

32.01 During the year, the Commission adopted a computerized information system known as the Legal Aid Management Information System (LAMIS). The system requires each lawyer/paralegal to complete and forward to the Commission a dossier form (time report) for each legal case completed. These dossier forms serve as a source of data entry for the LAMIS system. LAMIS provides various statistical reports including a year to date summary report for each lawyer/paralegal, which indicates the percentage of time spent on criminal (shareable) or civil (non-shareable) legal cases. This LAMIS summary report is used by the Commission in the preparation of the annual Federal Cost Sharing Claim. During the examination, it was observed that there is a lack of a timely and economical management/audit trail between this LAMIS summary report and the dossier forms. Accordingly, the Federal Cost Sharing Claim may not be prepared on a timely basis and the Claim may not be susceptible to complete audit verification in accordance with the requirements of the Federal/Provincial Cost Sharing Agreements.

32.02 This weakness allows the possibility of a delay and/or impairment in the collection of monies otherwise due to the Province of Saskatchewan.

33

SASKATCHEWAN LIBRARY

33.00 Each government agency has a responsibility to ensure that its expenditures are authorized by management in accordance with relevant legislation. In order to adequately discharge this responsibility each agency must have in place a system of controls sufficient to satisfy management that the above responsibilities are complied with.

33.01 The Comptroller, Department of Revenue and Financial Services, makes payments which are charged to the appropriations for the Saskatchewan Library.

33.02 The Comptroller makes these payments based upon payment vouchers which have been duly authorized by Saskatchewan Library officials or by officials of the Department of Revenue and Financial Services.

33.03 The Comptroller subsequently produces a report for officials of the Department detailing payments which were charged to the appropriations for the Saskatchewan Library.

33.04 There was no evidence that a control procedure existed to compare what the Comptroller charged to the appropriations with that which was authorized by the officials designated to approve charges and that charges were processed accurately.

33.05 The consequence of this weakness is that the Saskatchewan Library may incur commitments in excess of the amounts allowable or fail to detect incorrect, incomplete or unauthorized charges made against the appropriations for the Library on a timely basis.

34

SASKATCHEWAN POWER CORPORATION

34.00 During the course of the examination of Saskatchewan Power Corporation my representatives observed certain purchases that did not have apparent authority.

34.01 Section 10(3) of The Power Corporation Act reads:

> *"Where the purchase price or sale price of real property included in one transaction exceeds $150,000 or where the purchase price or sale price of personal property included in one transaction exceeds $1,000,000, the approval of the Lieutenant Governor in Council shall be obtained."*

34.02 In 1985, the Corporation purchased natural gas from a number of suppliers at costs in excess of $1,000,000. These purchases were not approved by the Lieutenant Governor in Council prior to purchase. They were subsequently approved on December 17, 1986, by Orders-in-Council 1151/86 and 1152/86.

35

SASKATCHEWAN TELECOMMUNICATIONS SUPERANNUATION BOARD

35.00 The Saskatchewan Telecommunications Superannuation Board administers The Saskatchewan Telecommunications Superannuation Act.

35.01 The Saskatchewan Telecommunications Superannuation Act established the Saskatchewan Telecommunications Superannuation Fund and set out action criteria for the investment of the money in the Fund.

35.02 Subsection 34(1) of The Saskatchewan Telecommunications Superannuation Act requires the Board to obtain the permission of the Minister to invest any part of the moneys standing to the credit of the Saskatchewan Telecommunications Superannuation Fund.

35.03 For the year under review, the Minister's approval for investments made during the months of May, July, August, September and October, 1985 had not been received by the Board and were not followed up promptly until after my representatives brought this to the attention of the officials responsible for the administration. The average monthly amount of investments made during these months was $27 million.

35.04 Consequently, investments made during the months of May, July, August, September and October, 1985 represented instances where money was invested by the Board without the requisite permission of the Minister.

35.05 Therefore, these represent cases where payments were made which were not properly authorized.

35.06 I am advised by the Board that the Minister's approval for the above noted investments was subsequently obtained.

36

SASKATCHEWAN TRANSPORTATION COMPANY

36.00 During the course of the examination of the accounts of the Company my representatives observed the following instances where the Company appeared not to have complied with appropriate authorities.

36.01 Order-in-Council 168/46, which established the Saskatchewan Transportation Company (STC), states in part that:

> *"....a quorum consisting of two of the members shall meet together at least once in every month for the dispatch of the business of the Corporation...."*

36.02 During the audit, it was noted that only five meetings of the Board were held during the 1985 fiscal year. As a result, the above requirement was not met. Also, it was observed that the minutes of one of the meetings of the Board of Directors of the Company held during the year was unsigned. Without signed minutes there is no evidence to support the authenticity of decisions taken by the Board.

36.03 In addition, it was observed that on a number of occasions the Company had borrowed beyond the amount of the line of credit authorized by the Lieutenant Governor in Council. On one of the occasions the borrowings in excess of the amount authorized was approximately $1.2 million.

37

SASKATCHEWAN WATER CORPORATION

37.00 Inherent in any system of management controls is the formal communication of policy, procedures and delegation of authority from the Board of Directors to senior management and from senior management to the appropriate employees. This is contemplated by The Water Corporation Act which states that the Board is to manage the Corporation.

37.01 In the case of grant and loan programs, this formal communication should include the setting of eligibility criteria and administrative guidelines by the Board. This is also contemplated by The Water Corporation Act as it states that the Corporation may make grants and loans on any terms and conditions it may establish.

37.02 My representatives observed that during the year ended December 31, 1985 the Corporation made grants under various programs. The program criteria and related administrative guidelines for certain programs were not formally approved by the Board until February 10, 1986.

37.03 In addition to the foregoing deficiency in the management control systems, during the audit of the accounts of the Corporation my representatives made the following observations:

37.04 Section 21 of The Water Corporation Act reads as follows:

> *"Out of money appropriated by the Legislature for the purpose, the Minister of Finance may make grants to the corporation:*
>
> *a) to defray losses incurred by the corporation as a result of loans made by it that have not been repaid;*
>
> *b) for the payment of interest on sums borrowed by the corporation;*

c) for the payment of the administration costs of the corporation;

d) for the payment of grants;

e) subject to any terms and conditions that may be prescribed, for any other purposes that may be determined by the minister."

37.05 Section 21 would appear to provide an obligation on the government to inform the Legislative Assembly in a clear manner before the voting of funds as to the use to be made of the funds that are appropriated for payment to the Saskatchewan Water Corporation.

37.06 During the year, the Corporation included as administration costs, financial assistance payments related to programs for which no moneys were separately appropriated by the Legislature.

37.07 To the extent that financial assistance payments have been regarded as funded from monies appropriated for the payment of the administration costs of the Corporation, it is my opinion that such monies are spent for purposes not authorized by the Legislature.

38

THE LIQUOR BOARD SUPERANNUATION COMMISSION

38.00 The Liquor Board Superannuation Commission is responsible for the administration of The Liquor Board Superannuation Act.

38.01 The Liquor Board Superannuation Act established a fund called the Liquor Board Superannuation Fund.

38.02 The Liquor Board Superannuation Act specifies what investments may be held in the Liquor Board Superannuation Fund.

38.03 The Commission has delegated authority to the Department of Finance, Investments and Financial Services Division, to make the investments on behalf of the Commission.

38.04 The Commission has delegated authority to the Department of Revenue and Financial Services for the rest of the administration of the Liquor Board Superannuation Fund.

38.05 My representatives observed that the officials responsible for the administration of the Fund did not have control procedures to ensure that investments purchased were in compliance with The Liquor Board Superannuation Act.

38.06 This deficiency in control procedures could result in the purchase of unauthorized investments without ready detection by the officials responsible for the administration of the Fund.

THE SASKATCHEWAN RESEARCH COUNCIL

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39

THE SASKATCHEWAN RESEARCH COUNCIL

MANAGEMENT CONTROL SYSTEMS DEFICIENCIES

39.00 Inherent in an appropriate system of management controls is the formal communication of policies and the delegation of authority from the Board to senior management and from senior management to the appropriate employees as well as procedures to ensure that all transactions comply with the policy and delegation.

39.01 During the course of the examination my representatives observed that officials of the Council had not prepared written procedures manuals for employees. The absence of this control procedure increases the risk that control procedures may be inadequate or that they may not operate effectively thus permitting errors or fraud to occur without detection.

39.02 Also, the satisfactory maintenance of minutes is an essential means of ensuring that significant decisions of the Council that affect its operation are documented and the authority for transactions clearly communicated and/or delegated to management. During the year, it was noted that an early retirement program was implemented with one employee awarded a compensation package in excess of $58,000. Management was not able, however, to provide any evidence that the terms and conditions for this program were approved by the Council, since this decision was not noted in the minutes.

CONTRACTS WITHOUT APPARENT AUTHORITY

39.03 In addition to the foregoing deficiencies in the management control systems my representatives observed that the Council had entered into transactions that did not appear to be within its authority.

39.04 Section 11 of The Research Council Act describes the powers of the Council. This section states, in part:

"11. Subject to such regulations as the Lieutenant Governor in Council may prescribe, the council may:

e) carry on research, development, consultation, design, innovation, investigations and studies for other persons or bodies upon such terms and conditions, including remuneration for its services, as may be decided upon by the council and approved by the Lieutenant Governor in Council;..."

39.05 In my 1985 annual report, I reported that it was suggested to management of the Council that, since a significant portion of its activity could be construed as falling within the criteria described in subsection 11(e), there should be a clear understanding of the circumstances in which such approval would be required. Accordingly, it was recommended that a legal interpretation of this clause be obtained by the Council in this regard. A legal opinion subsequently obtained by the Council confirmed that the terms and conditions concerning services provided for other parties must be approved by the Lieutenant Governor in Council.

39.06 At the date of this report, approval of the Lieutenant Governor in Council has not been obtained for activities performed under contract for others. Accordingly, all expenditures relating to such contracts have been made without authority.

STUDENTS IN INDUSTRY AND GRADUATES IN INDUSTRY EMPLOYMENT PROGRAMS

39.07 In 1984/85, the Council commenced the administration of the Students in Industry and Graduates in Industry employment programs. These programs subsidize companies employing students and graduates hired under these programs. In 1984/85, $325,000 was disbursed from the money received by the Council for general purposes. My solicitor has advised that, in his opinion, the authority to make these payments was not within the powers of the Council, as prescribed in The Research Council Act and, therefore, could not be paid out of the appropriation received by the Council for general purposes.

39.08 In 1985/86, a separate grant of $1.88 million was received from the Saskatchewan Employment Development Agency to fund these employment assistance programs, of which $1.17 million was disbursed by the Council in the 1985/86 year. In the

absence of an agreement between the Agency and the Council under Section 19 of The Research Council Act, my solicitor advises that he can find no statutory authority for payments made to employers under these programs in 1985/86. If it is argued that there was an unwritten agreement between the Council and the Agency to carry out the wishes of Treasury Board in connection with these programs, the Agency would be responsible for ensuring the necessary Order-in-Council approval required under subsection 8(2) of The Employment Development Agency Act was obtained.

THE SASKATCHEWAN RESEARCH COUNCIL EMPLOYEES' PENSION PLAN

39.09 The Saskatchewan Research Council has established a pension plan for its employees and has created a special fund, The Saskatchewan Research Council Employees' Pension Fund, to receive contributions, hold investments and pay retirement allowances to plan members. The plan is administered by a Board of Trustees.

39.10 It is important that there is a formal communication of policies and the delegation of authority from the trustees of the Fund to senior management and from senior management to employees or to such other party that is given the authority to manage the Fund as well as procedures in place to ensure that all transactions comply with the policies and the delegations.

39.11 During the course of the examination my representatives observed that there were no policies and procedures manuals. As a result of the absence of control procedures in this area, the risk is increased that control procedures may be inadequate or that they may not operate effectively, thus permitting errors or fraud to occur without timely detection.

39.12 I am advised that the trustees meet on a periodic basis to conduct the business of the Pension Fund. During the examination, it was noted that no minutes of the meetings are taken or maintained. Without signed minutes, there is no written record of any decisions taken by the trustees regarding policies and directives applicable to the operation of the Fund.

39.13 In situations where specific tasks relating to the administration of the Fund are contracted out to third parties,

management must take appropriate measures to ensure that the work carried out is in accordance with agreed upon conditions.

39.14 During the examination, it was noted that there is no written agreement between management and the firm which handles administrative and actuarial duties for the Fund. Without a written agreement there may not be clear understanding of the responsibilities of each party.

39.15 As a result of the absence of control procedures in this area, management cannot be assured that it will have any recourse in the event of errors or misunderstandings with respect to services received from this firm.

40

THE WORKMEN'S COMPENSATION SUPERANNUATION BOARD

40.00 The Workmen's Compensation Superannuation Board is responsible for the administration of The Workmen's Compensation Board Superannuation Act.

40.01 The Act established the Workmen's Compensation Board Superannuation Fund to receive contributions, to pay allowances and to invest surplus funds. The Act stipulates what investments may be held in the Fund.

40.02 It was observed that officials responsible for the administration of the Fund had not established control procedures to ensure that only investments permitted by the Act were acquired. This deficiency in control procedures increases the risk of an unauthorized investment.

WESTANK INDUSTRIES LTD.

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41

WESTANK INDUSTRIES LTD.

41.00 Westank Industries Ltd. is a subsidiary of Saskatchewan Economic Development Corporation.

DOCUMENTATION DEFICIENCIES

41.01 Inherent in an appropriate system of management controls is the formal communication of policy and the delegation of authority from the Board to senior management and from senior management to the appropriate employees as well as procedures to ensure that all transactions comply with the policy and delegation.

41.02 During the course of the examination for the year ended September 30, 1985, it was observed that officials of the company had not prepared written policy and procedures manuals for employees. The result of the absence of this control procedure increases the risk that control procedures may be inadequate or that they may not operate effectively thus permitting the risk that errors or fraud may occur without detection.

41.03 Also the maintenance of minutes of the meetings of the Board of Directors is an essential means of ensuring that significant decisions of the Board are documented and the authority for transactions clearly communicated and or delegated to management. It was observed that formal minutes of the meetings of the Board of Directors were not prepared for all Board meetings.

41.04 Also essential in an appropriate system of management controls are control procedures which permit management to review, analyze and control the operations of the organization and procedures for the Board of Directors to monitor the performance of the management. A key element of such a system is budgets and an effective internal interim financial reporting system so that management and the Board of Directors have financial information to assess performance and adjust operations as necessary in order to meet targets established in the budget.

41.05 During the course of the audit it was observed that an operating budget was not prepared. It was also observed that due to a new computer accounting system and changes of personnel there were delays in the preparation of monthly financial statements.

41.06 The possible consequences of the foregoing weaknesses regarding formal communication of policies and procedures and the lack of budgets and interim financial reporting is that the risk is increased that management and the Board of Directors will be unable to effectively assess the performance of the company. Further, the risk is increased that management will not detect errors or fraud which might result from the specific internal control weakness described later in this chapter.

CASH RECEIPTS DEFICIENCIES

41.07 Fundamental to a system of management controls is an organizational plan to ensure that there is a segregation of duties to ensure that no one person is responsible for the custody of an asset and the records to control the asset.

41.08 This segregation is necessary to ensure that no one person is in a position to misappropriate assets and alter the records to conceal the misappropriation.

41.09 It was observed that one person had access to cash receipts, prepared the bank deposits, handled customer statements and handled inquiries from customers regarding their accounts. There was also no independent comparison of cash receipts to the bank deposit records. It was also observed that there was an absence of controls over the use of credit notes.

PAYROLL DEFICIENCIES

41.10 It was also observed that there was no segregation of duties over disbursements for payroll.

41.11 The preparation of the company's payroll and the payment of employees is done by a chartered bank. The bank pays the company's employees based upon the company's authorization to pay and provides a report of the persons who were paid.

41.12 The company's procedures allow one person to authorize the bank to pay an employee and that same person is

the only person who checks the report of the persons paid by the bank. As a result of this deficiency in control procedures the risk is increased that fraudulent payments may be made without ready detection.

REVENUE DEFICIENCIES

41.13 The company's management control system should include control procedures to ensure that all revenue that is due to the company is recorded and recorded in the correct amounts.

41.14 The company's control procedures were not adequate to ensure that these control objectives were achieved as there was no check to ensure that all goods shipped were invoiced to customers and there was no check to ensure that the invoices prepared were for the correct amount.

DISBURSEMENT DEFICIENCIES

41.15 As reported earlier in this chapter, it is essential that there be control procedures in place to ensure that all transactions comply with the policies and delegations of the Board of Directors and/or senior management.

41.16 Usually a system of management controls requires written evidence that a transaction has been approved by an appropriate official by such means as a signature or stamp marking the document so that the next person handling the document is aware that the transaction has been appropriately authorized.

41.17 During the course of the examination it was observed that there were many payment vouchers where there was no evidence that supplier invoices had been matched to purchase orders and receiving reports and that the invoices were accurate. Also, there was no evidence that the payment voucher was charged to the correct general ledger account.

41.18 Further, with regard to disbursements, the management control system requires the authority of two persons to draw a cheque on the company's bank account.

41.19 It was observed that there were instances where cheques had been issued and cashed with the authority of only one signing officer. The control procedures in place did not

detect these unauthorized payments from the company's bank account.

FINANCIAL REPORTING

41.20 In addition to the foregoing, my representatives observed that a copy of the audited financial statements of this Crown agency is not tabled in the Legislative Assembly. As a result of this the government is not fully accountable to the Members of the Legislative Assembly for the administration of this company.

42

WESTERN DEVELOPMENT MUSEUM

42.00 One element of a system of management controls is a system which provides for physical control and accountability over negotiable assets to ensure that they are adequately protected against loss, fire and theft. Methods for achieving these controls normally include restriction of access to assets, control over assets while in custody, adequate segregation of the custodial function from operational and accounting functions, specific assignment of custodial responsibilities, satisfactory physical protection of the assets and adequate insurance coverage.

42.01 My representatives observed that there were inadequate physical controls over the inventory. In addition, there were inadequate controls to determine how much inventory should be on hand, including accurate and timely periodic physical counts of the inventory, as well as a comparison of the gross profit margin with planned and actual results.

42.02 As a result of this deficiency the risk of a loss of inventory without detection is increased.

APPENDIX I

The Provincial Auditor Act,
Chapter P-30.01, 1983

SHORT TITLE AND INTERPRETATION

1. This Act may be cited as The Provincial Auditor Act.

2. In this Act:

(a) "acting provincial auditor" means the acting provincial auditor appointed pursuant to section 5;

(b) "audit" means an audit or examination of accounts of public money that may be made by the provincial auditor pursuant to this Act;

(c) "Crown" means Her Majesty the Queen in right of Saskatchewan;

(d) "Crown agency" means an association, board, commission, corporation, council, foundation, institution, organization or other body, whether incorporated or unincorporated, all the members of which or all of the board of management or board of directors of which:

(i) are appointed by an Act or by the Lieutenant Governor in Council; or

(ii) are, in the discharge of their duties, public officers or servants of the Crown;

and includes a corporation that has at least 90% of its issued and outstanding voting shares vested in the Crown;

(e) "Crown-controlled corporation" means a corporation that is not a Crown agency and that has less than 90% and more than 50% of its issued and outstanding voting shares vested in the Crown;

(f) "fiscal year" means the period commencing on April 1 in one year and ending on March 31 in the next year;

(g) "provincial auditor" means the Provincial Auditor for Saskatchewan appointed pursuant to section 3;

(h) "public money" means all revenues and public moneys from whatever source arising, whether the revenues and moneys:

(i) belong to the Government of Saskatchewan; or

(ii) are collected or held by officers of the departments of the Government of Saskatchewan or Crown agencies for, on account of or in trust for the Government of Canada or the government of any other province or for any other party or person;

and includes public property;

(i) "public property" means property held or administered by the Crown.

APPOINTMENT AND OFFICE

3.(1) After consultation with the Chairman of the Standing Committee of the Legislative Assembly on Public Accounts, the Lieutenant Governor in Council shall appoint a person as the Provincial Auditor for Saskatchewan.

(2) The provincial auditor is an officer of the Legislative Assembly and holds office during good behaviour.

(3) For the purposes of The Saskatchewan Telecommunications Act, the provincial auditor is the auditor of utilities.

(4) The provincial auditor may resign his office at any time by forwarding a written notice addressed to:

(a) the Speaker; or

(b) where there is no Speaker or the Speaker is absent from Saskatchewan, the President of the Executive Council.

(5) The Lieutenant Governor in Council may suspend or remove the provincial auditor from office only for cause and on the address of the Legislative Assembly.

4.(1) Subject to subsection (2), the provincial auditor is to be paid a salary equal to the average salary of all the deputy ministers and acting deputy ministers of the Government of Saskatchewan calculated as at April 1 in each year.

(2) Where, as a result of a calculation made pursuant to subsection (1), the provincial auditor's salary would be less than his previous salary, he is to be paid not less than his previous salary.

(3) The provincial auditor is entitled to receive any privileges of office and economic adjustments that are provided to deputy ministers.

(4) The provincial auditor's salary is a charge on the consolidated fund.

5.(1) The provincial auditor may appoint an employee of his office as acting provincial auditor.

(2) Where the position of provincial auditor is vacant and there is no acting provincial auditor, the Lieutenant Governor in Council may appoint a person as acting provincial auditor who is to hold office until an acting provincial auditor is appointed pursuant to subsection (1).

(3) Where the position of provincial auditor is vacant or the provincial auditor is absent or unable to perform his duties due to illness or other disability, the acting provincial auditor has all the powers and shall exercise all the duties of the provincial auditor.

6. No person is eligible to be appointed as provincial auditor or as acting provincial auditor unless he is a member in good standing of the Institute of Chartered Accountants of Saskatchewan.

7. For the purposes of exercising any of the powers or carrying out any of the duties imposed upon him by this Act, the provincial auditor may engage the services of or retain any technical, professional or other advisors, specialists or consultants that he considers necessary.

8.(1) The provincial auditor may employ any persons that he considers necessary to assist him in carrying out his duties and fulfilling his responsibilities under this Act.

(2) Employees of the office of the provincial auditor are employees of the Legislative Assembly and are not members of the public service of Saskatchewan.

(3) The disability income plan, the public employees dental plan and the group insurance plan applicable to the public servants of Saskatchewan and any plan introduced to replace or substitute for those plans apply or continue to apply, as the case may be, to the provincial auditor and the employees of the office of the provincial auditor.

(4) The Public Service Superannuation Act and The Superannuation (Supplementary Provisions) Act apply to the provincial auditor and the permanent and full-time employees of the office of the provincial auditor, and all credits in any superannuation plan or fund established pursuant to those Acts for the provincial auditor and the employees of the office of the provincial auditor and accumulated under those Acts, prior to the coming into force of this section, are preserved and continued in accordance with those Acts.

(5) The provincial auditor shall administer, manage and control the office of the provincial auditor and the general business of the office and shall oversee and direct the staff of the office.

9. The provincial auditor shall require every person employed in his office who is to examine the accounts of a department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation pursuant to this Act to comply with any security requirements applicable to, and to take any oath of secrecy required to be taken by, persons employed in that department, Crown agency or Crown-controlled corporation.

10. The provincial auditor may delegate to any member of his office the authority to exercise any power or to perform any duty conferred on him pursuant to this Act, other than the duty to make his annual report or a special report to the Legislative Assembly.

DUTIES AND POWERS

11.(1) The provincial auditor shall examine or cause to be examined, in any manner that he considers necessary to enable him to report as required in this Act, all accounts related to public money and accounts not related to public money that he is required by an Act to examine and shall determine whether in his opinion:

(a) the accounts have been faithfully and properly kept;

(b) all public money has been fully accounted for and properly disposed of, and the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of public money;

(c) public money expended has been applied to the purposes for which it was appropriated by the Legislature and the expenditures have adequate statutory authority; and

(d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public money.

(2) Notwithstanding any other Act, where the Lieutenant Governor in Council or Treasury Board appoints, pursuant to a statutory authority, another auditor to examine and report on the financial statements of a Crown agency, that auditor shall perform the audit according to an audit plan that:

(a) he has prepared; and

(b) includes any procedures that the provincial auditor considers necessary to allow the provincial auditor to fulfill his responsibilities under this Act.

(3) As soon as possible after another auditor described in subsection (2) has completed his audit or examination of a Crown agency, the provincial auditor shall provide that other auditor with an acknowledgement that the procedures performed are sufficient or are not sufficient for the provincial auditor to fulfill his responsibilities under this Act.

(4) The provincial auditor has the right to obtain from departments of the Government of Saskatchewan, Crown agencies and Crown-controlled corporations and their auditors any information or report that is, in his opinion, necessary to enable him to fulfill his responsibilities under this Act, and the departments, Crown agencies and Crown-controlled corporations and their auditors shall provide that information or report to him.

(5) Where the accounts, records and financial statements of a Crown agency or Crown-controlled corporation are audited by another auditor, the provincial auditor may rely on any report of that auditor for the purpose of fulfilling his responsibilities under this Act.

(6) Where, in the opinion of the provincial auditor, a report, document or explanation provided to him pursuant to this section is not sufficient to allow him to fulfill his responsibilities under this Act, he may conduct or cause to be conducted any additional examination or audit of the accounts, records or financial statements of a department of the Government of Saskatchewan, a Crown agency or Crown-controlled corporation that he considers necessary.

12.(1) At the end of each fiscal year, the provincial auditor shall report to the Legislative Assembly on the results of all examinations or departments of the Government of Saskatchewan and Crown agencies giving details of any reservations of opinion made in an audit report and shall call attention to every case in which in his opinion:

(a) any officer or employee of a department of the Government of Saskatchewan or Crown agency has wilfully or negligently omitted to collect or receive any public money belonging to the Crown;

(b) any public money was not duly accounted for and paid into the appropriate fund;

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature;

(d) an expenditure was made for which there was no authority or which was not properly vouchered or certified;

(e) there has been a deficiency or loss to the Crown through the fraud, default or mistake of any person;

(f) a special warrant authorized the payment of public money; or

(g) essential records were not maintained or the rules and procedures applied were not sufficient:

(i) to safeguard and control public money;

(ii) to effectively check the assessment, collection and proper allocation of public money; or

(iii) to ensure that expenditures were made only as authorized;

and shall call attention to any other matter connected with a department of the Government of Saskatchewan, a Crown agency or a Crown-controlled corporation that he considers should be brought to the notice of the Legislative Assembly.

(2) In the annual return made pursuant to subsection (1), the provincial auditor may:

(a) report on the work of his office and on whether, in carrying on the work of his office, he received all the information, reports and explanations he required from departments of the Government of Saskatchewan, Crown agencies or Crown-controlled corporations or their auditors; and

(b) comment on the financial statements of any department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation of which he is the auditor.

(3) Notwithstanding subsection (1), the provincial auditor is not required to report to the Legislative Assembly on any matter that he considers immaterial or insignificant.

13. The provincial auditor may prepare a special report to the Legislative Assembly on any matter that is, in his opinion, important or urgent.

14. Notwithstanding The Tabling of Documents Act:

(a) the provincial auditor shall submit to the Speaker, as soon as is practicable, his annual report and any special report that is prepared by him pursuant to section 13; and

(b) the Speaker shall, as soon as practicable, lay before the Legislative Assembly each report received by him pursuant to clause (a).

15.(1) The provincial auditor shall certify, in accordance with the outcome of his examinations, all financial statements of:

(a) any funds that he is required to audit pursuant to subsection 11.(1);

(b) Crown agencies;

(c) Crown-controlled corporations; and

(d) accounts not related to public money that are, by an Act, required to be examined by him.

(2) Notwithstanding any other provision of this Act, the provincial auditor is not required to audit or report on the financial statements of a Crown agency or Crown-controlled corporation for which the Lieutenant Governor in Council or Treasury Board has appointed another auditor.

16.(1) Where:

(a) the Legislative Assembly or the Standing Committee of the Legislative Assembly on Public Accounts:

(i) requests the provincial auditor to perform a special assignment; and

(ii) causes the provincial auditor to be provided with the funding that the provincial auditor considers necessary to undertake the special assignment; and

(b) in the opinion of the provincial auditor, the special assignment will not unduly interfere with his other duties prescribed in this Act;

the provincial auditor shall perform the special assignment.

(2) Notwithstanding The Tabling of Documents Act:

(a) the provincial auditor shall submit to the Speaker, as soon as is practicable, the report of any special assignment prepared pursuant to subsection (1) on the request of the Legislative Assembly; and

(b) the Speaker shall, as soon as is practicable, lay before the Legislative Assembly each report received by him pursuant to clause (a).

(3) The provincial auditor shall submit to the Clerk of the Assembly a special report prepared pursuant to subsection (1) on the request of the Standing Committee of the Legislative Assembly on Public Accounts, and the clerk shall make the special report available to the members of that committee.

(4) Where:

(a) the Lieutenant Governor in Council:

(i) requests the provincial auditor to perform a special assignment; and

(ii) causes the provincial auditor to be provided with the funding that the provincial auditor considers necessary to undertake the special assignment; and

(b) in the opinion of the provincial auditor, the special assignment will not unduly interfere with his other duties prescribed in this Act;

the provincial auditor may perform the special assignment.

(5) The provincial auditor shall submit, as soon as is practicable, a special report prepared pursuant to subsection (4) to the Lieutenant Governor in Council.

17. Whenever, in the opinion of the provincial auditor or another auditor who is appointed to undertake an audit of Crown agencies or Crown-controlled corporations, any public money or revenues or money collected or held by employees of Crown-controlled corporations have been improperly retained by any person, the provincial auditor or the other auditor, as the case may be, shall immediately report the circumstances of that case to the member of the Executive Council who is responsible for the department of the Government of Saskatchewan, Crown agency or Crown-controlled corporation and the Minister of Finance.

18. The provincial auditor shall:

(a) cause to be examined debentures and other securities of the Government of Saskatchewan that have been redeemed;

(b) assure himself that the securities described in clause (a) have been properly cancelled; and

(c) at any time and to any extent that the Minister of Finance may require, participate in the destruction of any redeemed or cancelled securities or unissued reserves of securities.

19. On the request of the Standing Committee of the Legislative Assembly on Public Accounts, the provincial auditor and any member of his office shall attend meetings of that committee to assist that committee:

(a) in planning the agenda for its review of the public accounts, the annual report of the provincial auditor, a special report prepared pursuant to section 13 or a report prepared pursuant to subsection 16.(1) on the request of the committee; and

(b) during its review of the items described in clause (a).

AUDIT COMMITTEE

20.(1) An audit committee, composed of not more than five persons appointed by the Lieutenant Governor in Council, is established.

(2) No Member of the Legislative Assembly is eligible to be a member of the audit committee.

(3) The Lieutenant Governor in Council shall designate one member of the audit committee as chairman.

(4) The audit committee may determine its rules of procedure.

21. On the request of the provincial auditor or the Minister of Finance, the chairman of the audit committee shall call a meeting of the audit committee to review any matter that, in the opinion of the provincial auditor or the Minister of Finance, as the case may be, should be considered by the committee.

22. The provincial auditor may give the audit committee any information that he considers appropriate to enable the audit committee to advise the Lieutenant Governor in Council on the result of any audit or examination made by him.

23. The provincial auditor shall present to the audit committee:

(a) his annual report; and

(b) any special report prepared pursuant to section 13;

before he submits the report to the Speaker.

GENERAL

24.(1) The provincial auditor is entitled:

(a) to free access, at all convenient times, to:

(i) all electronic data processing equipment and programs and documentation related to the electronic data processing equipment; and

(ii) all files, documents and other records relating to the accounts;

of every department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or other person that he is required to examine or audit or with respect to which he is examining pursuant to a special assignment; and

(b) to require and receive from employees of a department of the Government of Saskatchewan, Crown Agency, Crown-controlled corporation or other person subject to examination or audit by him any information, reports and explanations that he considers necessary for the proper performance of his duties.

(2) The provincial auditor may station in any department of the Government of Saskatchewan, Crown agency, Crown-controlled corporation or with any other person subject to examination or audit by him any employee of his office or advisor, specialist or consultant engaged pursuant to section 7 to enable him more effectively to carry out his duties, and the department, Crown agency, Crown-controlled corporation or other person subject to examination or audit shall provide the necessary office accommodation for the employee, advisor, specialist or consultant person so stationed.

25. The provincial auditor may examine any person on any matter relating to any account that is subject to an examination or audit by him, and, for the purposes of that examination, he may exercise all the powers of commissioners under The Public Inquiries Act.

26. The provincial auditor is not required to lay any audit working papers of his office before the Legislative Assembly or any committee of the Legislature.

27.(1) An accountant, who is:

(a) a member in good standing of the Institute of Chartered Accountants of Saskatchewan;

(b) not employed by a department of the Goverment of Saskatchewan, a Crown agency, a Crown-controlled corporation or the office of the provincial auditor; and

(c) appointed by the Lieutenant Governor in Council;

shall audit the accounts of the office of the provincial auditor.

(2) An auditor appointed under subsection (1) has the same powers and shall perform the same duties in relation to an audit of the office of the provincial auditor that the provincial auditor has or performs in relation to an audit performed pursuant to this Act.

(3) The auditor of the office of the provincial auditor shall submit his report to the Standing Committee of the Legislative Assembly on Public Accounts.

28. The provincial auditor may charge a reasonable fee for professional services provided by his office.

29. The provincial auditor, the employees in his office and any advisor, specialist or consultant engaged pursuant to section 7 are not liable in any action for any act done or not done or on any statement made by them in good faith in connection with any matter they are authorized or required to do under this Act.

30. The provincial auditor, any employee in his office or any advisor, specialist or consultant engaged pursuant to section 7:

(a) shall preserve secrecy with respect to all matters that come to his knowledge in the course of his employment or duties under this Act; and

(b) shall not communicate those matters to any person, other than when he is required to do so in connection with:

(i) the administration of this Act;

(ii) any proceedings under this Act; or

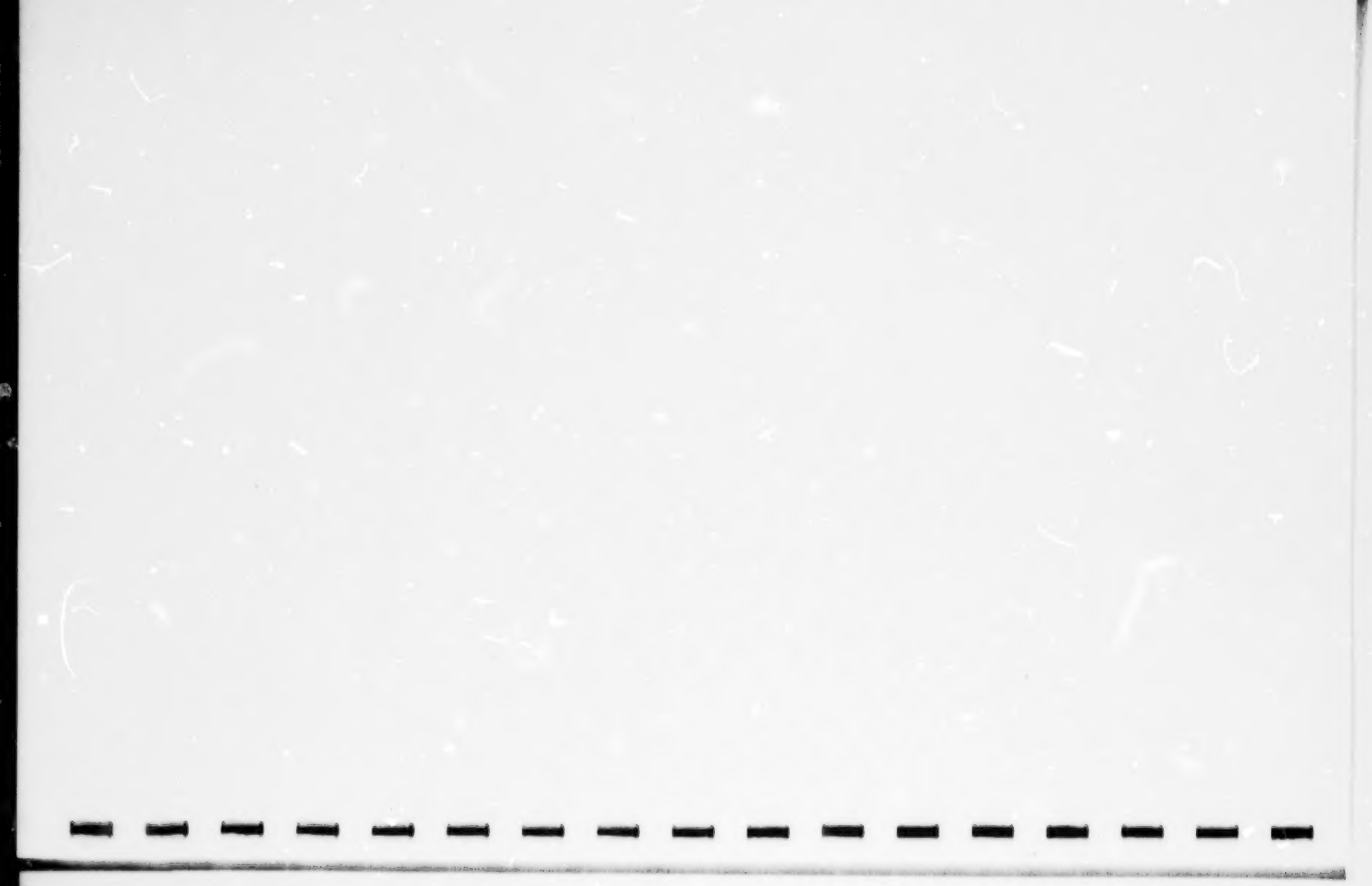
(iii) any proceedings in a court of law.

31. Subject to subsection 4.(4), any sums required for the purposes of this Act are to be paid from moneys appropriated by the Legislature for the purpose.

32.(1) The person appointed on the day before the coming into force of this section as provincial auditor pursuant to The Department of Finance Act, as that Act existed on the day before the coming into force of this Act, is deemed to be appointed as provincial auditor pursuant to this Act.

(2) On the day this section comes into force, the members of the public service who are employed in the office of the provincial auditor cease to be employed in the public service and each such person becomes an employee of the office of the provincial auditor at a salary of not less than that he was receiving on the day before the day this section comes into force.

33. This Act comes into force on the day The Department of Finance Act, 1983 comes into force.



SPECIAL REPORT OF THE PROVINCIAL AUDITOR

TO THE LEGISLATIVE ASSEMBLY

November 27, 1986

1.0 Introduction

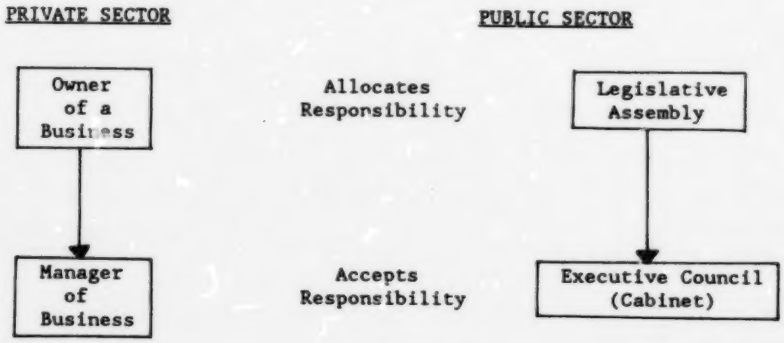
1.1 My duty as an officer of the Legislative Assembly is to assist it in holding the Executive Council accountable for the financial stewardship responsibility assigned by law to the Executive Council.

1.2 Section 13 of The Provincial Auditor Act permits the Provincial Auditor to report to the Legislative Assembly on any matter that is, in his opinion, important or urgent.

1.3 An analogy may help in understanding the environment in which the Provincial Auditor operates.

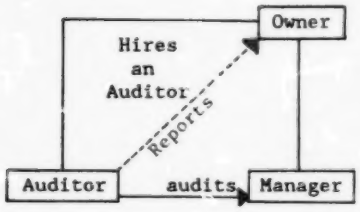
1.4 A comparison may be drawn between the private sector and the public sector where an undertaking is operated by a manager who is appointed for the purpose of managing the enterprise.

This diagram describes a situation in the private sector where an owner of a business hires a manager and allocates certain responsibilities for the operation of that business to the manager. The manager is accountable to the owner. It draws a comparison to the public sector wherein the Legislative Assembly allocates responsibility to administer public funds to the Executive Council. The Executive Council is accountable to the Legislative Assembly.

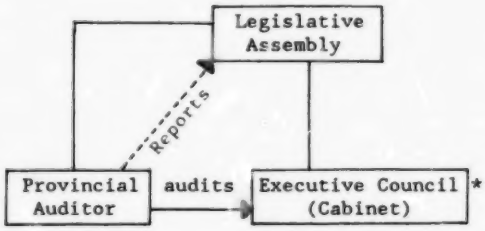


1.5 This diagram expands on the diagram in section 1.4 and describes a situation where the owner of a business hires an auditor to audit the manner in which the manager has discharged his responsibilities and to report directly to the owner the results of his audit. The diagram draw a comparison to the public sector. In the public sector the Provincial Auditor audits or causes to be audited the manner in which the Executive Council has administered public funds and reports directly to the Legislative Assembly.

PRIVATE SECTOR



PUBLIC SECTOR



*All departments and Crown corporations responsible to Cabinet.

2.0 Interference in the effective operation of the Office of the Provincial Auditor.

2.1 In this regard, I report that I have been unable to obtain sufficient resources through the Executive Council (Cabinet). The result of this inability to obtain sufficient resources seriously interferes with the effective operation of my office to audit and report to the Legislative Assembly in a timely manner.

2.2 I am required to make critical comments to my statutory client, the Legislative Assembly, about the Executive Council's (management's) financial management practices. I am also in the difficult position of having to obtain the resources through management to do this work. This situation allows the possibility of management interference in the effective operation of my office.

2.3 An analogy may help in understanding this problem. The analogy is an owner telling his auditor to get from the manager all of the resources he needs to make critical comments to the owner about management

2.4 This situation does not exist for three other officers of the Legislative Assembly, namely, the Clerk of the Legislative Assembly, the Legislative Librarian and the Legislative Counsel and Law Clerk. These officers obtain their resources from a Board of the Legislative Assembly.

2.5 Allowing Cabinet to set my resources is not consistent with the theory that I am appointed for the benefit of the Members of the Legislative Assembly.

2.6 It is my opinion that I should not have to obtain the resources for my office through Cabinet. I, therefore, recommend that the Standing Committee on Public Accounts, a Committee of the Legislative Assembly:

a) be responsible to review, amend and approve my spending estimates prior to tabling in the Legislative Assembly;

b) have the authority to determine the resources for my office; and

c) have the authority to lay this estimate before the Legislative Assembly.

I further recommend that the Estimates for my office be referred by the Legislative Assembly to the Standing Committee on Estimates under rule 86(5).

I have been advised that no legislative changes would be required to effect this recommendation.

2.7 Since the Standing Committee on Public Accounts has familiarity with and an understanding of the work of the Provincial Auditor, it has the knowledge to examine my spending estimates.

2.8 The Standing Committee on Public Accounts of Canada has recently recommended to the House of Commons that the spending estimates of the Auditor General of Canada be referred to it.

3.0 **Public sector auditing costs.**

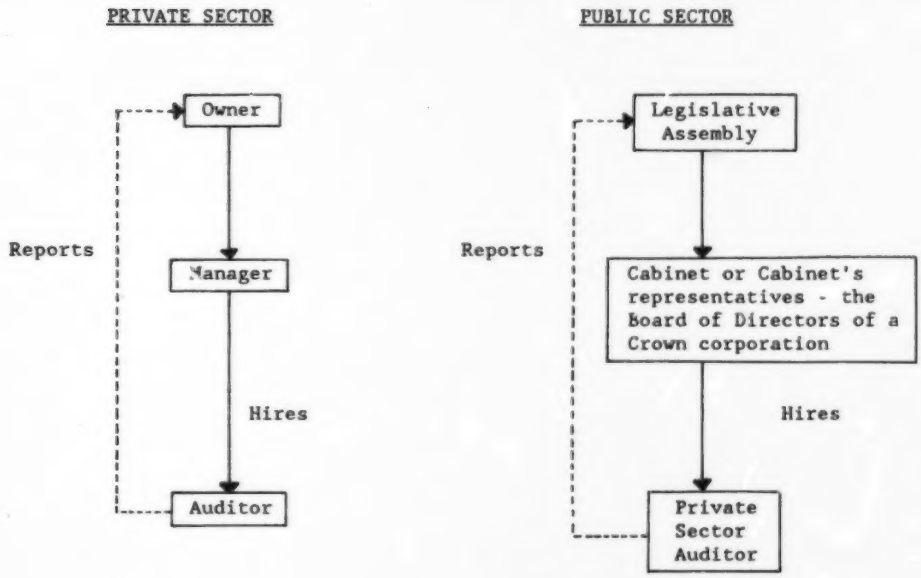
3.1 A brief report on public sector auditing cost efficiency would be useful to assist the Legislative Assembly to evaluate whether or not it is cost efficient to use private sector auditors to discharge its audit requirements.

3.2 Private sector auditors, when appointed auditor for a particular Crown corporation, also work for the benefit of the Members of the Legislative Assembly and are, therefore, called upon to discharge all of the audit requirements of the Legislative Assembly.

3.3 To allow Cabinet or the Board of Directors of a particular Crown agency to make this determination allows them to effectively control the appointment of auditors to their interests and not necessarily for the benefit of the Members of the Legislative Assembly.

3.4 An analogy may help in understanding this problem.

In this diagram the owner of the business tells the manager to hire an auditor to make critical comments directly to the owner about the manager's performance. The diagram draws a comparison to the public sector. In the public sector Cabinet is allowed to appoint a private sector auditor to audit certain crown corporations on behalf of the Legislative Assembly.



3.5 The Honourable William Z. Estey in his report on the inquiry into the collapse of the CCB and Northland Bank had a number of comments on management interference in the relationship between an auditor and his statutory client.

"All of this appears to have led to the chopping by management of Clarkson, Gordon from the audit rotation for the year 1985 ..... When these events are assessed with a similar incident in 1980 they greatly reinforce the conclusion that bank management effectively controlled the appointment of auditors according to their own interests and not necessarily those of the shareholders who appoint them."

"Interference by management in the process of the appointment by shareholders of auditors ..... make a farce out of the theory that the auditors are appointed by and for the benefit of the shareholders."

3.6 I have been concerned for some time about the practice of the Executive Council appointing private sector auditors to audit crown agencies on behalf of the Legislative Assembly. Over the past several years I have assembled information about the additional cost of this practice.

3.7 The Standing Committee on Public Accounts is the Committee of the Legislative Assembly with the constitutional role of evaluating public spending. It bases its questions and conclusions on three criteria: economy, efficiency and effectiveness.

3.8 The determination of whether or not it is cost effective to have a private sector auditor discharge the audit requirements of the Legislative Assembly for a particular Crown agency should be made by the Standing Committee on Public Accounts. Referring these matters to this Committee would also reduce the possibility of management interference and ensure the public interest, inherent in the concept of establishing an independent legislative auditor, is well served in a non-partisan sense.

3.9 In my 1985 annual report I reported that in total $776,000 was paid to private sector auditors for the audit of certain crown corporations for the 1984/85 fiscal year. The information that I have obtained indicates that the present practice of using private sector auditors appears to cost the people of Saskatchewan an approximate additional sum of $200,000 annually.

3.10 This estimate of additional cost is based upon:

a) experience obtained from my supervision of the private sector auditors' work over the past several years; and

b) information about audit fees obtained from the private sector auditors over the past several years.

3.11 I, therefore, recommend that the Standing Committee on Public Accounts review the present costs of using private sector auditors and also review the cost of any additional proposed use of private sector auditors to ensure that their use is based upon the most cost efficient manner to discharge the audit requirements of the Legislative Assembly.

4.0 Events leading up to this Special Report.

4.1 My annual report for a fiscal year is normally tabled in the next fiscal year at the beginning of the spring session of the Legislative Assembly.

4.2 On October 21, 1985, I asked Treasury Board for $3.657 million (1986/87 fiscal) in order to discharge the audit requirements of the Legislative Assembly in as timely a manner as prior years.

4.3 In 1983 when legislation transferred the management of the office to me the level of funding was $3.587 million. For the 1986/87 fiscal year the office was provided $3.507 million which is approximately 2% less than what was provided in the 1982/83 fiscal year.

4.4 When I became aware that the resources requested for my office were reduced, I asked my officials to re-examine the resources necessary to complete the work of the office.

4.5 As part of this review, I also asked them to consider if the work of the office had been reduced by:

a) 1986 legislation introduced by the executive government; and

b) the proposed 1986/87 spending estimates for the Consolidated and Heritage Funds

4.6 This review disclosed that the work of my office has increased rather than decreased.

4.7 The increased work for my office results from major new government initiatives together with increased spending out of the Consolidated and Heritage Funds. Some of these major new government initiatives are the Saskatchewan Pension Plan, Property Management Corporation, special assistance to farmers and provincial income tax incentive programs.

4.8 After this review it was my opinion that with the resources presently provided my annual report would be delayed approximately one month.

4.9 Also, it was my opinion that, if my resources remained at the present level, my annual report for the 1987 fiscal year would be delayed by an additional month because of the compounding effect.

4.10 It appeared that my annual report for the 1987 fiscal year would not be available for a spring session of the Legislative Assembly in 1988.

4.11 Accordingly, on June 23, 1986, I wrote to the Chairman of Treasury Board and asked for additional funds for 1986/87 to maintain the present timing of the work of my office. I advised him that unless I was given more funds my annual report would be delayed.

4.12 On July 14, 1986, the Chairman of Treasury Board wrote me and advised: *"It was the expectation of myself and my colleagues that the funding provided to your office this year would provide sufficient funds to allow you to carry out your responsibilities. It was anticipated that, as are a number of government departments and agencies, your office would rise to the challenge of financial management in times of fiscal uncertainty. I continue in this belief, and would ask that you reconsider your requirements with a view to carrying out your responsibilities within the funding level provided."*

4.13 I responded to the Chairman of Treasury Board on July 30, 1986 advising him that I was of the opinion that I have risen to the challenge of good financial management. I also told him I continue in the belief that the resources provided for my office are not enough to carry out the work of my office in a timely manner.

4.14 In my July 30, 1986 letter to the Chairman of Treasury Board, I also made the following observations:

a) Government spending through the Consolidated Fund and Saskatchewan Heritage Fund has increased. In 1986/87 the estimated spending through these two funds alone is 28% above the 1983 level. In this same period I requested a 2% increase above the 1983 level.

b) Since 1983 the rates for goods and services which I obtain from provincial government agencies for telephone and vehicle rentals have increased approximately 20% and 28% respectively.

c) The amounts charged by the federal government for unemployment insurance premiums and Canada Pension Plan contributions have increased by 31% and 39% respectively.

d) There have been a number of new funds and crown agencies created since 1983 that administer public money. These funds and agencies require an audit pursuant to The Provincial Auditor Act.

e) I have observed and reported on an increasing number of inadequate financial management practices within the government since 1983. These inadequate financial management practices cause additional work for my office.

f) I have observed that during the three year period ended March 31, 1985, private sector auditors who audit crown agencies have increased their fees on average 13%.

4.15 The auditor who audits the affairs of my office recently reported on the financial management practices in my office as follows:

"The organization and effectiveness with which your office conducts its affairs are excellent and reflect a high degree of professionalism."

4.16 On August 11, 1986, the Chairman of Treasury Board acknowledged receipt of my letter. He advised that he would have his officials consider my request for more resources.

4.17 On September 23, 1986, one of my officials received a telephone call from a Treasury Board official regarding my request for more resources. The Treasury Board official asked that additional information be provided to Treasury Board in the form of a letter from me.

4.18 On September 29, 1986, I sent a letter to Treasury Board setting out the requested information.

4.19 On October 7, 1986, during a telephone call to one of my officials, a Treasury Board official asked for and received clarification regarding my request.

4.20 On October 8, 1986, Treasury Board officials again asked one of my officials for further information by way of a letter from me. On my instruction, the Treasury Board official was asked to write me a letter setting out what information was needed and why the information was needed in order to consider my request for resources. This was done to ensure that there would be no misunderstandings. To the date of this report I have not received any further communication regarding this matter.

4.21 On October 16, 1986, I met with the Secretary of Treasury Board and one of his officials.

4.22 During the meeting I told him that the present Estimates process for my office is unacceptable and the reasons why it is unacceptable. I asked him to propose a different process which would be acceptable to both of us. In this regard, I suggested that he consider using the Standing Committee on Public Accounts to review, amend and approve the Estimates for my office.

I also told him that I could not see any merit in my future attendance at Treasury Board to discuss my estimates.

4.23 I telephoned the Secretary of Treasury Board on November 19, 1986, and asked if he was prepared to propose a different Estimates process for my office. There were no further developments at that time.

APPENDIX III

GOVERNMENT DEFICITS : HOW FAR DOWN IS THE BOTTOM LINE?

Government Deficits:

How far down is the bottom line?

An outline of the accounting issues
from The Canadian Institute of Chartered Accountants

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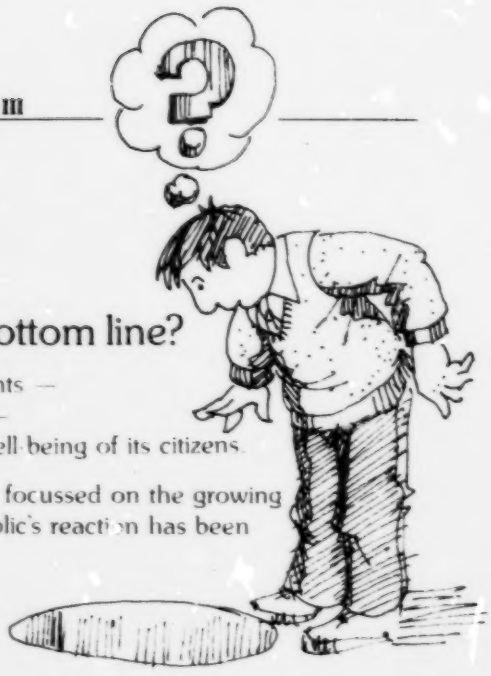
8 Public reaction to government deficits
9 Confusing terminology
10 There's no accounting for government deficits
13 Poor accounting leads to poor accountability
14 A need for coordinated action
15 Recent improvements
17 The CICA Public Sector Accounting and Auditing Committee



Government deficits: How far down is the bottom line?

The deficits of Canada's governments — federal, provincial, and municipal — bear directly upon the economic well-being of its citizens.

In recent years, public attention has focussed on the growing size of government deficits. The public's reaction has been concern — and confusion.

This booklet surveys some common problems in understanding government deficits and examines a relatively overlooked cause of confusion: there's no consistent method of accounting for reported deficit figures. Over time, our senior governments have chosen different ways of informing us about expenditures and revenues.

Governments report annually to the public and its elected representatives on their financial position and results — but it would take a financial genius to glean from these reports an overall picture of the financial activities and position of governments across Canada.

Better information for elected representatives and voters would lead to better informed decisions and choices. The Canadian Institute of Chartered Accountants, with the help and cooperation of governments, has begun work to develop more understandable, consistent and useful financial reporting by governments.

The Deficit Debate

LOOK AT THE DEFICITS. OUR GOVERNMENTS ARE EATING THE SEED CORN.
NONSENSE! YOU'VE GOT TO DIFFERENTIATE BETWEEN THE CYCLICAL AND THE STRUCTURAL...
FUTURE GENERATIONS ARE GOING TO HAVE TO PAY FOR OUR SPENDTHRIFT WAYS...
...AND DISCOUNT THE NUMBER FOR INFLATION AND THERE'S NO DEFICIT AT ALL.

The deficit debate is confusing.

The deficit debate under way in both Canada and the United States raises difficult questions to which there are not easy or widely-supported answers.

- Are high deficits the cause of high interest rates?
- Is government borrowing to finance high deficits 'crowding out' private sector borrowers?
- How much of the deficit is cyclical and how much is structural? Would the annual deficit disappear if full economic potential at low inflation is actually achieved?
- Should government be spending to stimulate the economy or setting a rigid course towards balanced budgets?
- A growing corporation can expect to have a growing level of debt. Why can't a government?
- Businesses borrow to finance their capital assets. Why shouldn't governments?
- Is the size of the United States' deficit affecting Canadian interest rates?

The arguments about the deficit are confusing. The facts are not comforting.

In 1983 the International Monetary Fund reported that the Canadian deficit was the largest, relative to the size of the economy, of any of the seven major industrialized nations in the western world.

An increasing drain on the federal public purse is the cost of servicing the public debt that results as these deficits accumulate.

This service charge must be kept in perspective. It is money which, to a large extent, the government is paying back to the public that lent it in the first place. But there are allocative, monetary and economic consequences from these transfers.

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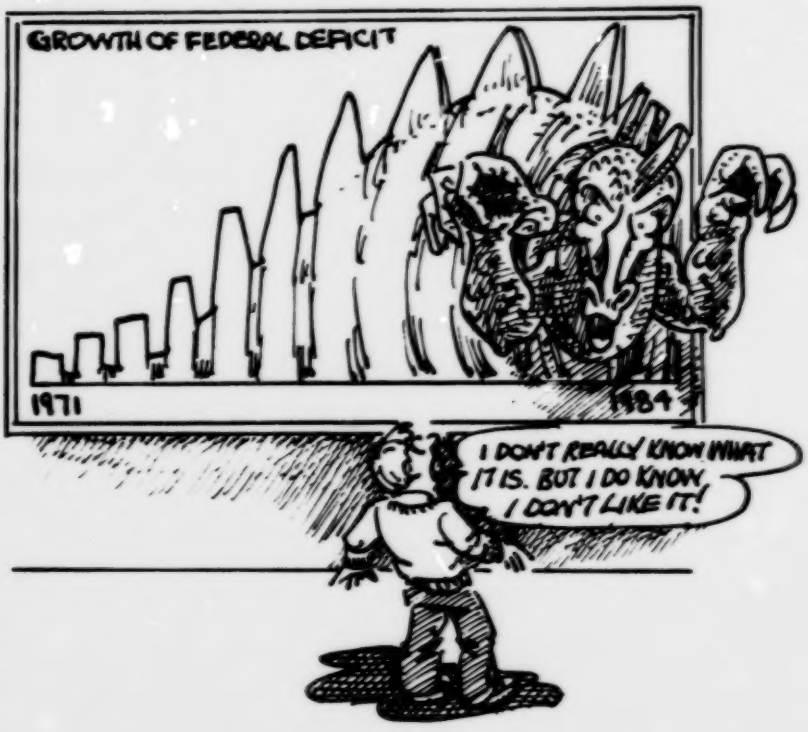
Public reaction: the deficit debate undermines confidence

No matter what the academic arguments for or against large government deficits, it is certain that the size of the federal deficit is of concern to the public. A 1983 public opinion poll by Decima Research Ltd. reported that Canadians are concerned about increases in the federal deficit. Results showed that the public feels, in tough times, the government, too, should restrain expenditures and manage its finances as prudently as the average Canadian household. The 'household economy' view of the economy may not be sophisticated, but it involves a deep concern with the economic health of the country and its effect on present and future generations.



It has become obvious that, whatever else, government deficits have become a cause for public anxiety. Such anxiety undermines public confidence in political and economic institutions and would undoubtedly affect performance in the long run.

Confusing terminology — or a deficit by any other name will give you a different number

Current information about government deficits may be inadequate — but it is certainly voluminous. In fact, a problem for anyone wanting to use governments' financial data is not finding it, it's sorting out the wheat from the chaff.

... AND OF COURSE, WE MUST CONSIDER THE IMPACT OF THE DEFICIT.
OF COURSE. -THE DEFICIT...
CURRENT ACCOUNT DEFICIT?
...BUDGETARY DEFICIT?
... NON-BUDGETARY?...STRUCTURAL OR CYCLICAL DEFICIT? WHAT ABOUT THE NATIONAL DEBT?
... PUBLIC ACCOUNTS DEFICIT?
... BALANCE OF TRADE DEFICIT?

There are broadly speaking, three ways to measure the federal deficit:

1. the budgetary deficit. This most commonly used definition, derived from the Public Accounts, is a figure which indicates the amount that budgetary expenditures in the Main Estimates (the estimates of what the government will spend in the year) currently exceed the budgetary revenue. It is called 'budgetary' because it excludes so-called 'non-budgetary' outflows such as

loans, investments and advances for specified purposes such as unemployment insurance, or to a Crown corporation. (The Main Estimates include both budgetary and non-budgetary items, but other amounts are added in the Budget to make up the number that is called the financing requirement.)

2. the National Accounts deficit. Because the Public Accounts of Canada do not jibe with the numbers or methods used by the provinces or used by other countries, Statistics Canada takes the government figures and 'translates' them into a more comparable form to use in calculating gross national product — the National Accounts. The Public Accounts contains one version of this, called the extended National Accounts presentation, which is placed ahead of the official audited financial statements of Canada, thereby further confusing the reader as to which one is the "right" one.

3. the financing requirement. That is the actual amount of money the federal government will need to raise over the annual period to meet its obligations on a cash basis.

There's no accounting for government deficits

Most people use the budgetary deficit figure when discussing The Deficit. That figure is not, however, a completely reliable indicator of a government's financial performance.

And that's an accounting problem.

There are two principal documents the public and the media use to judge a government's financial condition and deficit, and accordingly its management ability. The future-oriented document is the budget setting out spending intentions; these plans can be compared to the audited financial statements issued after the fiscal year is over.

Unfortunately, the figures in the documents do not tell the whole story. The budgets and financial statements of individual Canadian governments are characterized by uncertain principles, widely diverse practices, and summary information that is often incomplete — according to N. Glenn Ross, FCA. Mr.

Ross was chairman of the first study group to compare financial reporting by all Canada's senior governments and the first chairman of the CICA's committee on government accounting.

In the cases of our federal and provincial governments, accounting statements are neither consistent nor comparable. In part, these varying practices are due to the way government accounting has developed.

It used to be that, as a means of legislative control, all revenues went into one *consolidated revenue fund* and were then appropriated for various government expenditures.

As long as the consolidated fund was comprehensive, budgets and financial reports covered all transactions.

As government operations became more widespread and complex, various funds, agencies and authorities were set up. Some government revenues continued to go into the consolidated fund; others went into funds, trusts or Crown corporations.

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Under such circumstances, the figure reported as a government's deficit does not necessarily cover all operations and the figure need not reflect all the government's outstanding obligations or assets.

Large expenditures, such as those for unemployment insurance, can be omitted from the calculation of the deficit, for example, by financing such programs through special funds.

In the past, some governments were always able to report a balanced budget on a current basis by reclassifying expenditures financed from borrowings. Governments no longer use such means to create balanced budgets.

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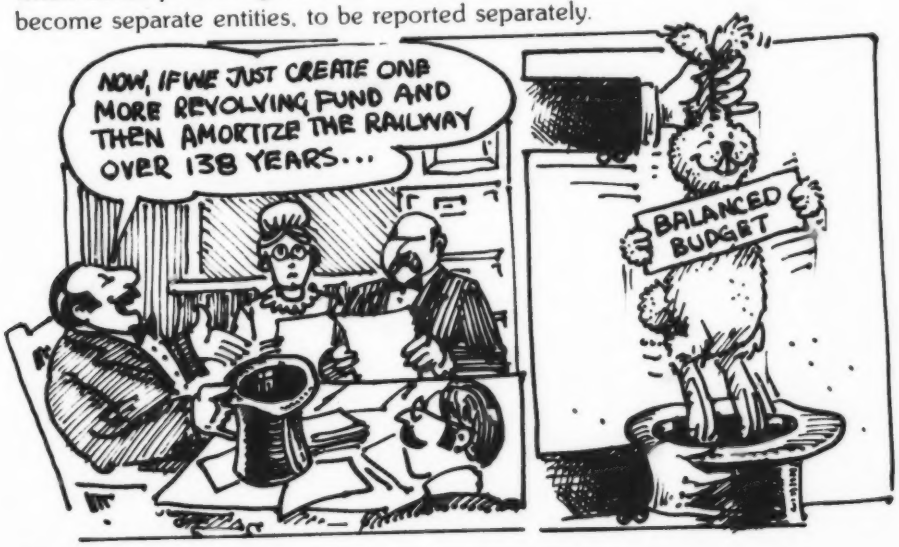
Also, the reported deficits of a single government are sometimes arrived at differently in successive years. It is difficult to assess, for instance, the growth over time of the federal deficit, when deficit-producing activities such as the Post Office become separate entities, to be reported separately.



Poor accounting leads to poor accountability

Poor financial information, or badly organized good information, is useless for decision-making, and this is now a major concern being addressed by governments and the CICA

Although governments issue annual audited financial statements, these are difficult to interpret. Considerable attention is directed, however, to the size and growth of a reported government deficit. However, as pointed out by the federal Auditor General, that figure may be misleading.

The federal deficit in 1983, for example, was reported as $24.7 billion. But the Auditor General gave the government's financial statements a qualified audit opinion, noting:

> "The increase in the national debt is important to all Canadians. Parliamentarians have the need — and all Canadians the right — to know the actual deficit, the actual debt as

precisely as can be stated. My opinion on the financial statements of Canada illustrates that those amounts would differ by many billions of dollars from what is presented in those statements if the government were to prepare the statements with the primary aim of providing the clearest possible picture of its financial position to the people of Canada."

According to Mr. Dye, the reported 1982-83 federal deficit of $24.7 billion was understated by $5.3 billion.

"If the gap between what is reported in the accounts and actual economic reality continues to increase, it will become more and more difficult to form judgements on the impact of the deficit and the national debt on the economy."

A number of provincial governments also reported substantial deficits but, as noted, the figures are not directly comparable.

A need for coordinated action

Given Canada's federal/provincial structure, efforts to control deficits — and to calculate them — should be coordinated. This objective is complicated by the absence of consistent and comparable standards of financial reporting.

For example, the federal government's Public Accounts, or Red Book, provides financial statements covering the government, some Crown corporations and agencies, and funds such as those accounting for government pensions (It has been said that all the figures dealt with by government are in the Red Book — but no-one will ever understand it.) Provincial governments have similar books, but, because they're not comparable, even governments cannot use them in negotiating federal/provincial finances.

When it comes to economic policy, none of the provinces is an island. It has been established that, for example, incentives applied in one province will 'leak' to have an effect upon the economies of others. Equally, a policy move in one area can be frustrated or cancelled out by opposing directions in another.

Comparable accounting policies and disclosures among all public sector entities, municipalities, the provinces and the federal government would promote the smoother functioning of the economy and planning for the future.

It has been noted by elected representatives that the credibility, as well as the performance, of governments would be assisted by an ability to issue comparable and consistent financial information and statistics. In 1983 the Premier of Manitoba suggested that the federal and provincial governments should abandon the practice of preparing 11 independent budgets, claiming that the federal and provincial budgets often pull in 11 different directions and can undermine each other.

Recent Improvements

As a first step towards developing consistent government accounting, the Canadian Institute of Chartered Accountants in 1975 undertook an inventory of existing practices in the federal and provincial governments. The research, funded by the CICA and carried out with government support and participation, resulted in a 1979 publication, *Financial Reporting by Governments*.

One result of this research was that the CICA founded the Public Sector Accounting and Auditing Committee (PSAAC). The members — most of whom are government accountants or auditors — are developing recommendations for public sector financial reporting.

Even before PSAAC had issued its first recommendation, however, the financial reporting study acted as a catalyst and some governments undertook substantial revision of their financial reporting practices. The provinces took the lead.

In British Columbia, for example, the Auditor General Erma Morrison, FCA, could report during the early 1980s that consistent improvements had been made in the accounting principles used by the provincial government. In particular, the presentation of consolidated financial statements gave her, legislators and taxpayers an overall view of the financial position and results of operations by combining the results of 35 major Crown corporations and agencies with those of the government.

Other examples took place in Manitoba and Alberta. Both provinces revised significantly, with full concurrence of elected representatives, accounting practices which had, in one case, substantially understated liabilities and, in the other, assets. In 1980, the federal government wrote off billions of dollars of assets, recognizing and remedying some deficiences in its financial reporting.

The Public Sector Accounting and Auditing Committee

In 1981, after consultation with government, the Canadian Institute of Chartered Accountants established the Public Sector Accounting and Auditing Committee (PSAAC), a volunteer committee bringing together accountants and auditors from both the public and private sectors to develop understandable and consistent financial reporting by governments. PSAAC issues recommendations on accounting and auditing for the public sector at all levels — governments and their constituent or subsidiary bodies.

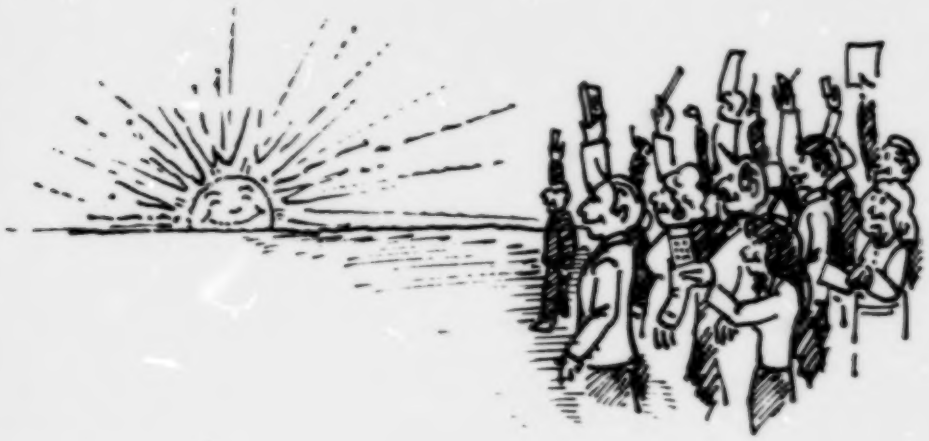
With respect to many specific items, governments follow widely diverse practices; so one of the first PSAAC projects was to develop a framework of agreed-upon basics.

The Accounting Statement *Objectives of Government Financial Statements* was the first major step. It identifies the users of government financial statements — the public, legislators, investors and analysts — and defines the nature of the information needed to meet their requirements, focussing in particular on the measurement of debt and deficit on a consistent basis.

Next on the agenda came *General Standards of Financial Statement Presentation* on overall reporting principles and standards of disclosure. These statements, together with the project to define just what should be included in governments' financial statements (Crown corporations? agencies? funds?) will provide the overall framework. Building on it, PSAAC will then be able to develop recommendations on specific accounting matters.

The members of PSAAC — 18 in all — are senior representatives from the public and private sectors — comptrollers general, auditors general, deputy ministers of finance, partners of public accounting firms, and senior financial officers of Crown corporations and agencies.

In addition, the Committee has about 100 associates — chosen for their knowledge and expertise — who provide advice on a continuing basis.

Taking a lead

The efforts of the public sector and the CA profession have made Canadian public sector accounting and auditing practices among the best in the world. We expect to stay in the lead.